

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Madison Heights	County Oakland
Audit Date June 30, 2005	Opinion Date September 2, 2005	Date Accountant Report Submitted To State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Madison Heights, Michigan**

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## **Comprehensive Annual Financial Report**

**June 30, 2005**

# City of Madison Heights, Michigan

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## Contents

### Introductory Section

Letter of Transmittal	i-xxiv
GFOA Certificate of Achievement	xxv
Organizational Chart	xxvi
List of Principal Officials	xxvii

### Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-8

### Basic Financial Statements

#### Government-wide Financial Statements:

Statement of Net Assets	9
Statement of Activities	10-11

#### Fund Financial Statements:

##### Governmental Funds:

Balance Sheet	12-13
Reconciliation of Fund Balances to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17

##### Proprietary Fund - Enterprise - Water and Sewer Fund:

Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20

##### Fiduciary Funds:

Statement of Net Assets	21
Statement of Changes in Net Assets	22

##### Component Units:

Statement of Net Assets	23
Statement of Activities	24-25

Notes to Financial Statements	26-52
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# City of Madison Heights, Michigan

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## Contents (Continued)

### Required Supplemental Information

Budgetary Comparison Schedules:	
General Fund	53
Major Streets Fund	54
Local Streets Fund	55
Revolving Fund	56
 Pension System Schedule of Funding Progress	 57
Pension System Schedule of Employer's Contributions	58
 Note to Required Supplemental Information	 59-60

### Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	62
 Combining Balance Sheet - Agency Funds	 63
 Budgetary Comparison Schedules:	 
Nonmajor Special Revenue Funds:	
Curtail Auto Theft Fund	64
Community Improvement Fund	64
Forfeiture Fund	65
Capital Projects - Fire Station Fund	66
Debt Service - Fire Station Fund	67
 Police and Fire Retirement System - Schedule of Changes in Reserves	 68

### Statistical Section

General Government Expenditure History	69
General Government Revenues History	70
General Government Selected Intergovernmental Revenues by Source	71
Tax Levy History	72
Property Tax Levies and Collections	73
Property Tax Rates - Direct and Overlapping Governments	74
General Tax Information	75

# City of Madison Heights, Michigan

---

## Contents (Continued)

### Statistical Section (Continued)

Taxable Valuation History	76
Principal Taxpayers	77
Special Assessments Billings and Collections	78
Net Bonded Debt History	79
Computation of Legal Debt Margin	80
Computation of Direct and Overlapping Debt	81
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Government Expenditures	82
Demographic Statistics	83
Real Property Value, Construction, and Bank Deposits	84-85
Miscellaneous Statistical Data	86

September 2, 2005

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

### **Introduction**

We are submitting herewith the Comprehensive Annual Financial Report of the City of Madison Heights for the fiscal year ended June 30, 2005. It is the responsibility of the City management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City's funds, as well as those of the City's discretely presented component units. The Comprehensive Annual Financial Report contains necessary disclosures useful in providing an understanding of the combined and individual fund statements.

The June 30, 2005 Comprehensive Annual Financial Report of the City of Madison Heights encompasses five sections: introductory, financial, required supplemental information, other supplemental information, and statistical.

The introductory section contains information on the City's current and future projects, departmental services and accomplishments, and an overview of the City's financial position.

The financial section contains the independent auditor's report, management's discussion and analysis, basic financial statements, and the notes to the financial statements. These basic financial statements include both government-wide and fund-based financial statements for the governmental funds. In addition, the proprietary funds, fiduciary funds, and component units are presented.

The required supplemental section includes budgetary comparison schedules of the major governmental funds as well as pension system funding schedules and related notes.

The other supplemental section includes budgetary comparison schedules for nonmajor governmental funds, nonmajor fund combining statements, and the Police and Fire Retirement System changes in reserves schedules.

The statistical section contains 10-year histories of revenues, expenditures, tax levies, assessed valuation, etc.

According to the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the City is required to undergo an annual federal single audit. Information related to the single audit, including the schedule of expenditures of federal awards, is issued under separate cover, as are auditor's reports covering the internal control structure and compliance with applicable laws and regulations.

The Comprehensive Annual Financial Report includes the City of Madison Heights, Michigan and any component units included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units included in the City's reporting entity include the Housing Commission, Economic Development Corporation, and the Downtown Development Authority, which are included as discretely presented component units, as well as the Municipal Building Authority, which is consolidated into the City's financial statements.

The Madison Heights Housing Commission receives Section 8 funds from the United States Department of Housing and Urban Development to provide rental assistance for families with low incomes. Tenants pay approximately 30 percent of their income toward the gross contract rent and the Housing Commission issues Housing Assistance Payments to the landlords for the remaining portion. Eligibility criteria are established by the Department of Housing and Urban Development and each tenant must meet the eligibility guidelines.

The Economic Development Corporation issues revenue bonds to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district and promote economic growth within the downtown district.

The Municipal Building Authority was created for the sole purpose of issuing and repaying debt for the construction and improvement of facilities within the City. The Building Authority was inactive during fiscal year 2004-2005.

## **Economic Conditions**

### **Regional Setting**

The City of Madison Heights is located near the southeast corner of Oakland County, adjacent to the western boundary of Macomb County and approximately two miles north of the City of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-75 (I-75) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

### **Local Economy**

Incorporated in 1955, Madison Heights has grown and prospered significantly over the past 50 years. The City of Madison Heights continues to welcome residents, businesses, and visitors alike to a vibrant and diverse community. The City is ideally located in southeastern Michigan, within Oakland County's "Automation Alley". Madison Heights provides a full range of services to residents, visitors, and the business community and is conveniently located for employers and employees alike at the intersection of I-75 and I-696. Oakland County continues to rank high in per capita income, increased employment opportunities, and overall quality of life.

The City of Madison Heights exemplifies the very best in Oakland County through its excellent City services, road maintenance and snow removal, increasing median income, and variety of opportunities for residents and the business community. It is a fiscally sound and stable community with many advantages because of its favorable tax base, housing mix, business climate, and convenient access to other business and residential areas in southeastern Michigan.

There are more than 1,300 commercial and industrial businesses and service enterprises within the City's 7.25 square miles. The City is proud to have a majority of small businesses, as well as more than 100 major companies within its borders, such as Best Buy, Coca Cola, Costco, CVS Pharmacy, Henkel Technologies, Home Depot, Kmart, Meijer, Microcenter, Ogura Corporation, Sam's Club, Target, and United Parcel Service. It is a "City of Progress" with 31 shopping centers, 11 hotels, more than 860,000 square feet of office space, and seven industrial parks that include almost 11 million square feet.

The City of Madison Heights is committed to working with present and future residents and businesses to continue our excellent tradition as The City of Progress!

### **Oakland County Economic Forecast**

Nationally known economists from the University of Michigan Institute of Labor and Industrial Relations recently presented the results of the 2005-2007 Economic Outlook for Oakland County at the 20<sup>th</sup> Annual Outlook Luncheon.

The health of Oakland's economy was evaluated both in terms of the next few years and over the longer term. First, the short-term outlook: Oakland created 8,600 jobs during the final nine months of 2004, and economists are forecasting that the economy will show sustained growth over the next three years, accelerating from 10,400 job additions in 2005 to almost 14,000 in 2007. This cumulates in a gain of 36,400 jobs over the three-year period, moderate growth



compared with the red-hot 1991-2000 period, which saw impressive average gains of 21,600 jobs per year, but nonetheless a solid breakaway from the lingering recession.

Where will the jobs come from? Almost all of them will come from the private sector. The government sector, constrained by the ongoing state budget crisis, is expected to grow by only 600 jobs over the next three years. Many of the jobs will come from the high-wage/higher-education industries. Professional, scientific, and technical services, corporate headquarters, information services, finance, and wholesale trade are expected to collectively contribute 31 percent (11,200 jobs) of the net job gains over the next three years. In contrast, the relatively low-wage/lower-education industries, including those in retail trade, leisure and hospitality, and personal and other miscellaneous services, are expected to account for only 20 percent (7,100) of the job additions.

Included in the expanding industries are many related to high technology. More prominent among them are technology-using industries, although technology-producing industries should grow as well. On the other hand, manufacturing is forecasted to lose jobs over the next three years, but at a more subdued pace: 2,500 job losses between 2004 and 2007 compared with a decline of 27,200 over the prior four years. So, Oakland County fits the governor's vision of the ongoing transformation of successful economies: job losses in industrial sectors being replaced by high-wage/higher-education jobs in other sectors, including (to quote the governor) "high-skilled jobs in emerging, technology-based industries."

But - and this goes to the point of Oakland County's longer-term prospects - Oakland County has been on the leading edge of this transformation for several years now. Automation Alley is just the most obvious example. Oakland County has been one of the most successful localities in Michigan, indeed the most successful, in making the transition from the traditional industrial economy to a knowledge-based economy. The short-term movements the economists are projecting over the next few years are simply extensions of the County's longer-term trend of increasing its concentration in the high-wage/higher-education economy. So a sound game plan has been put in place, and it continues to be followed.

This doesn't just happen by chance or good fortune. It reflects outreach efforts from the area's higher education institutions, a receptiveness and entrepreneurial spirit in the local business and financial communities, and vision and execution by the leadership in local government. It also reflects a working partnership among all of the stakeholders. Many regions have one or more of these components for success in place. Oakland County will remain one of the elite local economies because it has all of the components in place.

### **Local Economic Base**

Madison Heights is a full-service modern community. It is fiscally sound, stable, and has many advantages accruing to it because of its favorable tax base, housing mix, and business climate. City officials proudly point to the fact that almost 90 percent of the buildings are single-family homes or condominiums, while over 57 percent of the City's tax base (real and personal property) is high-yield light industrial and commercial facilities.

The diversity of the City's economic base is reflected in its building stock:

Single-family homes*	9,702	Homes
Condominiums - 9 complexes*	331	Units
Sr. Citizen Towers - 5 buildings	709	Units
Rental apartments - 24 complexes	2,448	Units
Mobile home parks - 3 locations	501	Sites
Shopping centers (1.4 million sq. ft.)	31	Centers
Hotel/Motels - 11 properties	1,053	Rooms
Offices (860,626 sq. ft.)	97	Buildings
Commercial (gas stations/retail/restaurants, etc.)	529	Buildings
Light industrial (10.4 million sq. ft.)	<u>505</u>	Buildings
 Total units/buildings	 <u><b>15,906</b></u>	

\* Single-family homes range in value from \$65,000 to in excess of \$317,500; condominiums range from \$65,000 to \$197,000.

### Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (68 percent of total 2004-2005 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's current tax base, including the DDA district, which will be the basis for property tax revenue for the fiscal year 2005-2006 budget.

By Class	Taxable Value	Percent
Real property	\$ 985,767,400	87.0
Personal property	<u>146,603,390</u>	<u>13.0</u>
Total	<u><b>\$ 1,132,370,790</b></u>	<u><b>100.0</b></u>
By Use		
Residential	\$ 502,075,810	44.3
Commercial	249,605,170	22.0
Industrial	234,086,420	20.7
Personal property	<u>146,603,390</u>	<u>13.0</u>
Total	<u><b>\$ 1,132,370,790</b></u>	<u><b>100.0</b></u>

Total taxable value for all property within Madison Heights has grown 45.4 percent over the last 10 years through June 30, 2005 or over 4 percent per year on average. Historically, the fastest rate of value growth of over 10 percent per year occurred in the late 1980s. From 1992 to 1993, the City experienced its only decline (0.5 percent) in values. For the latest 12-month period, City taxable values have shown an average rate of growth of approximately 3.3 percent overall. Real property taxable values increased by approximately 4.4 percent, while personal property taxable values decreased by approximately 2.4 percent.

## Major Business

Another way to judge the strength of a city's local economy is to measure its reliance on a type of business or a single business. While some cities rely heavily on a major automotive manufacturing plant, Madison Heights' business base is made up of a large number of smaller businesses. Having smaller employers reduces the impact of any one business deciding to relocate or going out of business.

The tables below show the City's major taxpayers as of December 31, 2004, the valuation date related to the property tax revenue of the City for the year ending June 30, 2006.

Taxpayer	Type of Business	Total Taxable Value (\$ Millions)
Liberty Property LTD Partnership	Industrial landlord	\$ 17.9
Madison Place/S & M Heights		
K410/Oakland Commerce Commons	Shopping center landlord	17.0
Gordon Begin Co.	Apartments	15.1
First Industrial LP	Industrial landlord	10.4
Detroit Edison Company	Electrical utility	10.3
Meijer, Inc.	Retail sales	10.1
BT-OH, LLC (United Parcel Service)	Parcel delivery	8.9
Surface Technologies/Henkel Corp	Chemical preparation	8.9
Co-operative Services	Senior high-rise apartments	8.0
Great Lakes Property Group Trust	Apartments	7.7
Ramco/Madison Center, LLC	Shopping center landlord	6.6
Ogura Corporation	Automotive supplier	6.3
Commercial Steel Treating	Steel treating	5.9
Costco	Warehouse retail	5.8
Home Depot USA, Inc.	Warehouse retail	5.3
Kemp & Sherman Company	Industrial landlord	5.2
Campbell Corners	Shopping center landlord	5.0
Saturn, I2-75 LTD	Auto engineering and design	4.8
Target Corporation/Mervyn's	Retail sales	4.8
H & L Tool Company	Automotive supplier	4.0
Total		<u>\$ 168.0</u>

The top 20 taxpayers made up 14.8 percent of the total taxable valuation citywide. The highest taxpayer (Liberty Property LTD Partnership) amounts to only 1.6 percent of the total value.

## Local Employment

Madison Heights has a strong, trained workforce. Several vocational schools in the area encourage young people to seek training in industrial-related careers. Also, within a seven-mile radius, there are some of Michigan's finest colleges and business schools.

The City's major employers include the following:

Name	Type of Business	Employees
St. John Oakland Hospital	Medical care and surgical hospital	800
United Parcel Services	Trucking and courier services	700
Henkel Surface Technologies	Chemical preparation	500
Triangle Electric	Electric work	403
Lamphere Schools	Public School District	380
Meijer	Retail store	380
CNI/UTI (Universal Trim)	Automotive assembly - Interiors	350
Madison Schools	Public School District	340
ADT Security Systems	Security systems services	327
Costco	Retail store	300
Gonzalez Design Group	Automotive engineering and design	300
Weldmation, Inc.	Welding apparatus	300
Infusystem	Medical equipment rental	290
Howard Finishing	Automotive metal plating/finishing	260
Home Depot	Hardware/Retail store	250
MSX International	Auto engineering	250
Super Kmart	Retail store	250
McNaughton - McKay Electric Co.	Electronic apparatus and equipment	235
Target Store	Department store	221
DMC - Michigan Orthopedic Specialty Hospital	Medical care and surgical hospital	200
Sam's Club	Retail store	200
EASI Engineering	Automotive engineering	186
D-M-E Company	Special dies, tools, jigs, and fixtures	160
Kasper Machine	Machine tool company	160
Valenite	Machine tools, metal cutting type	160
H & L Tool Company	Automotive tools and parts manufacturer	150
Ingersoll-Rand Zimmerman	Machine tool company	150
Lear Corporation	Automotive assembly - Interiors	130
Alpha Thread Gage	Bolts, nuts, rivets, and washers	125
Best Buy	Electronic equipment and supplies	125
EDAG Engineering	Automotive engineering	125

## Economic Development Initiatives

Historically, the City has made use of economic development revenue bond financing, tax abatements, infrastructure improvements, tax increment financing, and site assemblage as local economic development initiatives.

The City's industrial building vacancy rate stands at about 14.5 percent and its commercial/office vacancy rate is 8.7 percent as of July 2005. Relative to other communities in metropolitan Detroit, the vacancy rate is very good, but our City is working to make it even better.

During fiscal year 2004-2005, the Economic Development Division completed its second year of addressing the needs of the business community. This division, new as of January 2003, fulfilled a City Council goal to establish a comprehensive economic development program for the City. The Economic Development Coordinator serves within the Community Development Department, and this position supports the Downtown Development Authority, Brownfield Redevelopment Authority, Planning Commission, and City Council regarding economic development projects. The Economic Development Coordinator is responsible for the development and improvement of the business and industrial districts in the City. This position provides support to businesses, business owners, and commercial and industrial property owners throughout the City. The main priorities of this division include business retention and expansion, and attraction throughout the City, improving the economic base of the community, creating employment opportunities, and reducing commercial and industrial property vacancies. In addition, the Economic Development Division works closely with the Chamber of Commerce, Oakland County, the Michigan Economic Development Corporation (MEDC), other State departments and organizations, adjoining communities, local real estate agencies, development firms, and community organizations to develop and strengthen cooperative relationships, business retention and attraction efforts, ombudsman services, and development opportunities throughout the City of Madison Heights.

Major selling points for the available industrial and commercial buildings in Madison Heights include the opportunities in size (225 to 214,000 square feet), low city and county taxation, and close proximity to major airports and freeway access.

To assist in the promotion of this business sector, five major industrial park areas were established including:

- **Stephenson Industrial Research Corridor**, Stephenson Highway from 12 Mile to 14 Mile Roads
- **Madison Industrial Research District** in the Dequindre and 14 Mile area, extending south to Whitcomb and west to John R
- **Public Service Center Industrial District** on Girard and Ajax Drive, off John R between 12 Mile and 13 Mile Roads
- **Ten Mile and John R Industrial District** running along 10 Mile from Dequindre to John R, and along John R from 10 Mile to Lincoln
- **Interchange 696 Industrial District**, bounded by Dequindre, Commerce, Progress (Interstate-696 service drive), and Lincoln

The following is a profile of these industrial parks:

	Bldgs.	Average Building Size (Square Feet)	Industrial Space Square Feet (Millions)	2005 Taxable Value (\$ Millions)
Stephenson Industrial Research Corridor	84	33,053	2.8	\$ 58.0
Madison Industrial Research District	209	23,712	5.0	112.8
Public Service Center Industrial District	34	11,403	0.4	8.4
Ten Mile and John R Industrial District	80	4,746	0.4	7.8
Interchange 696 Industrial District	55	25,111	1.4	30.6
I-75/Twelve Mile District	2	109,483	0.2	4.8
Other industrial	37	12,528	0.5	9.1
<b>Totals</b>	<b>501</b>		<b>10.7</b>	<b>\$ 231.5</b>

In an effort to promote economic development in our area, Oakland County launched in 1987 "Automation Alley" and Madison Heights is an active member of this effort. The term "Automation Alley" has been used informally in Oakland County for some time.

"Automation" became a catchword to identify the high-tech companies gravitating to Oakland County. Since they were all located close to one of two linked interstate freeways, I-75 and I-696, the term "Alley" was used to describe this high-speed, high-tech corridor. Automation Alley reflects both the technological orientation and geographic location of about 1,800 businesses in Oakland County, Michigan, and Madison Heights is at the intersection of the I-75 and I-696 corridors.

Automation Alley is made up of the world's most dynamic and advanced technology-focused companies. Industries range from telecommunications, computer software/hardware, and information systems to consumer products, industrial processes, automotive research and development, diversified manufacturing, and health care.

Oakland County has become an internationally recognized economic powerhouse. The Automation Alley Consortium was established to develop programs to support members in their efforts to attract world-class, high-technology workers.

Automation Alley's 550 progressive businesses do not restrict recruitment efforts to the local area. They compete directly on a national level with other national powerhouses such as California's Silicon Valley and Boston's Route 128 for the world's best employment prospects. By implementing a dynamic marketing strategy through Automation Alley, Oakland County has enhanced its ability to compete in the global marketplace.

## **Major Initiatives**

Recent years have not been without challenges, which will remain in the foreseeable future as the City begins its second half century. Despite serious financial constraints however, and to the credit of our fine staff, there were significant achievements in 2005 with more anticipated in the years ahead. Progress and preservation are balanced, as the City continues to live up to its reputation as the City of Progress, while preserving those goals and accomplishments that form its history and foundation.

### **Public Safety**

In 2005, the Police Department celebrated 50 years of service to this community. Being part of and not apart from the community helps the Department work together with citizens to provide law enforcement services to the citizens of Madison Heights. The Police Department preserved their training commitment by continuing to train for the challenges of Police Service and Homeland Security through on-site education, policy review, and daily shift briefings. The Department also continued making progress and advances in equipment by purchasing an evidence and property room management system and a digital interview recording system, both funded with drug forfeiture seizures.

For 2006, the Department will implement three major equipment changes including a new 800 Megahertz radio system, a county-wide video arraignment system, and a new Records Management System. All of these new systems are managed by Oakland County's Courts and Law Enforcement Management Information System (CLEMIS). These systems will enhance the Department's ability to coordinate operations, reduce workload, and share data. The officers and personnel of the Police Department, working together with these new systems and programs, will assist us in preserving the essential goals of protecting the public, enhancing the quality of life, reducing the fear of criminal activity within this community, and continuing to progress as a Police Department.

As the Fire Department moves forward to meet the challenges of the future, they have also worked to honor and preserve their past. Since moving into the new Headquarters Station, the Department has embarked on the task of restoring and displaying the Fire Department's photos dating back to 1959. These photos of the Department personnel are currently on display in the multipurpose room at Headquarters. The Department also has a display of photographs of all the Fire Chiefs, beginning with the Department's first Chief, Joe Sloan, on the wall just outside the Chief's office. In the lobby at Headquarters are the latest additions to remembering the past, a bronze plaque moved from the old Fire Station and a photograph of Firefighter Raymond Susko, who died in the line of duty on February 19, 1974.

For the future, the Department has completed training the members of the Technical Rescue Team in structural collapse. The members of the team are now trained in high angle, confined space, trench, and structural collapse rescue. Along with the other members of our Fire Mutual Aid Pact, OAKWAY, we are working to become a part of Oakland County's technical rescue response team.

Discussions have been underway with the cities of Hazel Park, Ferndale, and Royal Oak on merging or resource sharing between the Fire Departments. The intent is to ensure that we are able to continue to provide our citizens with the full array of emergency services with improved efficiency.

In keeping with our commitment to Advanced Life Support (ALS), the Department has put a new rescue vehicle into service. This new rescue is located at Fire Station #2 and replaced a 1995 rescue truck that had served as one of our original ALS trucks.

## **Services**

Road maintenance continues to be a high priority item. Paving projects in 2005 included Bellaire from Dartmouth to DIESING, Winthrop from west of Hales to south of Westmore, Delton from Greig to Cowan, Beaupre from Rose to Fontaine, Browning from Longfellow to west of Dorchester, Dorchester from Browning to Donna, Donna from Dorchester to Sherry, the right turn lane of the Senior Center, and several Stephenson Highway turnarounds.

Fall 2005 road projects include sectional repair on John R from Ten Mile to Lincoln and sectional concrete repair on portions of Park Court, Hales, University, and Farnum. Another 2005 project saw the elimination of the Beaupre Sanitary Pump Station and the associated sanitary sewer extension. Calendar 2006 will see Phase 6 of the Stephenson Highway turnarounds, Battelle from Lincoln to Guthrie, Alger from Lincoln to Guthrie, and the north half of Guthrie from Alger to the cul-de-sac. Next year will also see Year 4 of the annual sidewalk program, including an area within John R, Eleven Mile, Dequindre, and Twelve Mile.

The Water Division installed a total of 5,000 linear feet of new pipe by way of water main replacements on Beaupre from Rose to Fontaine, Delton from Cowan to Greig, Browning from Whittier to Longfellow, Dorchester from Browning to Donna, Donna from Dorchester to Sherry, and Eleven Mile from Groveland to Osmun, including two crossover lines. Commercial meter reading has been expedited through the installation of radio read devices. Metering on Dequindre from Fourteen Mile to Ten Mile was completed this fall, with 130 new devices, bringing the total to over 300.

The motor vehicle maintenance operation is phasing out the use of lead wheel weights and using zinc at no extra charge. Used tires are now being recycled, instead of being sent to the landfill at a cost of about \$1.50 per tire. Used motor oil is being sold for about \$.20 per gallon instead of paying to have it hauled away.

The City continues to offer and showcase its website, [www.madison-heights.org](http://www.madison-heights.org), as a primary source of valuable and timely information. New online services include direct payment for water bills, a property tax estimator, interactive mapping, and streaming web video of City Council meetings. Residents and businesses are encouraged to take advantage of all there is to offer on the Web and to sign up for automatic e-mail notification of new job announcements, bids, newsletters, reports, and much, much, more!



## **Parks and Libraries**

The Parks Department applied for and received a grant for tree replanting from the State of Michigan to assist City residents who had ash trees removed and to reforest the City. Madison Heights is the first municipality to remove infected ash trees utilizing a new State program. The project started in August and continued throughout the fall.

The City also continued its campaign to combat the West Nile virus by larviciding standing water and ponds. Mosquito traps were set on a weekly basis throughout various parks. The trapping process involved identifying, submitting, and using test results to monitor for the presence of West Nile.

The Nature Center continues to be a popular place with close to 29,000 visitors in 2005, assisted by 35 active volunteers who put in a combined total of 4,500 hours. The Wednesday Garden Club, Saturday morning birthday parties, and school visits are ongoing activities, and a fall open house was held in early October.

The Recreation Division was instrumental in coordinating the City's 50th anniversary celebrations in 2005. The events were kicked off in January with an old-fashioned sock hop. The Avenue of the Mayors was dedicated, honoring the leaders of Madison Heights, past and present, and fireworks were enjoyed at both of the City's festivals. Another successful TGIF Lunchtime Concert Series and season of Wednesday evening coffee concerts were co-sponsored with the Library.

In 2005, the City Library continued to introduce new features of iBistro, the shared Internet catalog. The catalog is available through any Internet connection anywhere, 24 hours a day, seven days a week, and offers a wealth of features for residents. There were close to 106,000 visits to the Library in 2005, and public Internet access continues to grow in popularity with close to 22,000 sessions logged. Word processing is now offered on all public Internet workstations. The Department completed a successful consolidation of its Main and Branch locations and is working on physical improvements to enhance quality library service to City residents.

## **Future Projects**

The City has set as a goal that a high level of basic services will be maintained with sufficient staff and appropriate equipment and facilities for fire suppression, emergency medical services, police, and public services programs. The budget contains the following key program enhancements, which will be provided within our current financial resources:

## **General Fund**

### **Public health-related program improvements including:**

\$ 2,000 West Nile virus mosquito prevention program (also an additional \$10,500 is budgeted in Water and Sewer Fund)

\$ 200,000 Emerald ash borer removal of dead and diseased trees from City parks and rights-of-way

### **Leisure Service program improvements including:**

\$ 33,300 Library purchases including: books, videos and audio visuals

\$ 533,560 **Proposal “V” Millage vehicle replacements including:**

8 patrol vehicles and related light bars

1 fire pumper truck (Phase I funding)

1 streets maintenance dump truck with plow

\$ 83,000 **Non-Proposal “V” Millage vehicle replacements including:**

1 brush chipper

1 supervisor’s vehicle

## **Major Streets Fund**

\$ 125,000	Stephenson Highway turnarounds reconstruction Phase VI
\$ 37,000	Phase III funding for Fourteen Mile I-75 underpass south side sidewalk (Total project \$232,000, City contribution \$77,300)
\$ 53,000	Madison Heights' local contribution to I-75 resurfacing project (Total project Madison Heights' portion - \$600,000)
\$ 173,000	John R Road joint rehabilitation Twelve Mile to Ten Mile Road
\$ 1,252,000	John R Road 1.7 mile overlay from Fourteen Mile to Red Run Drain (Oakland County and Road Commission for Oakland County \$626,000 and Major Street Fund \$626,000)

## **Local Streets Fund**

\$ 1,150,000	<b>Proposal "R" Millage road reconstruction scheduled as part of Year Ten of Neighborhood Road Improvement Program including:</b>  Dorchester - Donna to Browning  Delton - Greig to Cowan  Beaupre - Rose to Fontaine  Proposal "R" maintenance and repair
--------------	---

### **Annual Road Maintenance Replacement Program:**

- \$ 115,000 Crack and joint sealing program for neighborhoods south of Twelve Mile, west of John R, north of Gardenia and east of the Parker District; and east of John R to Couzens between Gardenia and Twelve Mile Road
- \$ 110,000 Phase II funding sectional replacement on Winthrop - west of Hales to south of Westmore (Total project \$160,000)

### **Downtown Development Authority Fund**

- \$ 30,780 Downtown Development Authority (DDA) funding match of 40% for the Economic Development Program
- \$ 10,000 DDA identification project based on review of alternatives including banners, signs and/or other
- \$ 40,400 Phase I funding for future property acquisition/demolition projects
- \$ 20,000 Public right-of-way mowing

### **Community Improvement Fund**

- \$ 30,000 Senior citizen home chore program lawn mowing and snow shoveling

### **Water and Sewer Fund**

- \$ 302,000 Watermain replacements as part of Year Nine and Ten of Ten Year Neighborhood Road Improvement Program on Dorchester from Donna to Browning, Delton from Greig to Cowan, Battelle from Lincoln to Guthrie, Alger from Lincoln to Barrett; and Eleven Mile Road from Groveland to Osmun
- \$ 15,000 Radio readers for commercial water meters

\$ 500,000 Phase II funding of sanitary sewer re-routing and elimination of the Wolverine Pump Station (Total project \$1,000,000)

\$ 70,000 Replace one backhoe

### **Drug Forfeiture Fund**

\$ 38,000 Purchase of 800 Megahertz equipment including encryption technology, shoulder microphones, and extra radio batteries not covered by grant

### **Special Assessment Revolving Fund**

\$ 300,000 Year 3 of Sidewalk Gap and Replacement Program between Lincoln and Eleven Mile Road

## **Departmental Services and Accomplishments**

Under the present City Charter adopted in 1955, Madison Heights is governed by the Council Manager form of government. Madison Heights provides a full range of services to its residents through its District Court, city clerk, city assessor, human resources, finance, custodial and maintenance, police, fire, streets, solid waste, senior citizens, recreation, nature center, parks, library, community development, community improvement, general administration, information technology, water and sewer, and motor pool departments, divisions, and offices.

### **District Court**

The 43<sup>rd</sup> District Court, Madison Heights Division, was established by the State of Michigan to render judicial decisions for the citizens of the City. The State is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court employees are supervised by the District Court Judge, who is an employee of the State of Michigan and elected by local voters.

## **City Clerk's Office**

The City Clerk's Office is responsible for the official records of the City. The department's employees are represented at all City Council, Zoning Board of Appeals, Civil Service Commission, Brownfield Redevelopment Authority, Downtown Development Authority, City-School Liaison Committee, Charter Amendment Committee, and Elected Officials Compensation Committee meetings. Staff word processes the agendas for the meetings and prepares notices and publications. Meeting actions are recorded in the form of minutes, indices, adjustment of directories, and updates to the Code of Ordinances. Ceremonial certificates, commendations, and testimonials are also prepared by staff.

This department is also responsible for issuance of animal licenses and the coordination of temporary, seasonal, and regular retail business licenses, right-of-way, and door-to-door solicitation permits. Madison Heights residents' vital statistics, such as birth and death certificates, are kept on file for use by individuals and the State of Michigan. The City Clerk's Department also maintains a medical loan closet to provide use of wheelchairs, crutches, canes, and walkers for residents.

The City Clerk administers the Election Division. This division is responsible for voter registration and providing lists of registered voters upon request. Other duties include conducting federal, state, county, and city and school elections in accordance with the federal and State election laws, while striving to protect the rights of the voters.

## **City Assessor's Office**

The City Assessor's Office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are approximately 11,500 real property descriptions and 1,800 personal property accounts contained in the City's mass appraisal files. The Assessing Department operates under the provisions of the General Property Tax Act of 1893, as amended, and also applicable local Charter Provisions. In addition, the department maintains and monitors the "homestead" status of all property throughout the City as well as tracking property transfers.

The department is responsible for development of Special Assessment District rolls used to fund infrastructure improvements. The Assessing Department also defends all assessments before the Michigan Tax Tribunal and participates in economic development activities.

## **Human Resources Department**

The Human Resources Department is responsible for the following functions: coordination of employee recruitment and selection, training, counseling, medical evaluation, discipline, transfer, grievance administration, staffing analysis and planning, labor relations, labor contract negotiations, health and safety, return-to-work program, compensation administration, position control, pay and classification review, wellness, and other matters. In addition, the department researches and formulates policy as directed by the City Manager or initiated by the department.

## **Finance Department**

The Finance Department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The Finance Department is responsible for all accounting, pension administration, risk management, and treasury functions. The Finance Department also assists in budget development, implementation, maintenance, and control. Additionally, the Finance Department provides support services to other departments, including being part of the management team in labor negotiations with all employee bargaining units. The Finance Department continues to move toward complete online data processing of financial reporting, accounting, accounts payable, budgeting, cash receipts, payroll, pension management, purchasing and encumbrance, and tax and utility billing and collection.

## **Department of Public Services - Custodial and Building Maintenance**

The Custodial and Building Maintenance Division is responsible for maintaining City buildings, which include preventative maintenance, repairs, and janitorial services. Custodial services are provided through outside contractors at the library, District Court, police station, senior citizen center, nature center, City Hall, and the Department of Public Services buildings.

## **Police Department**

The police department strives to preserve and protect life and property in Madison Heights, through its five operating bureaus. The majority of the department's staffing, equipment, and financial resources are allocated to the Road Patrol Bureau. The Bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The Investigative Bureau includes trained professional investigators who are responsible for researching, solving, and successful prosecution of crimes.

The Crime Prevention Bureau works with businesses and homeowners to increase their awareness of the importance of security.

The Accident Investigation Team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight and safe vehicle statutes to protect the City's roadways.

The police department also maintains an educational program in many of these areas through contacts with various citizens' groups and speaking engagements.

Finally, the Auxiliary Services Unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary Services consists primarily of volunteers supervised by a police sergeant. Volunteer groups include Police Reserves, Crisis Response Team, Citizens Observation and Surveillance Team, and the Police Explorers, who are young people who receive training for law enforcement careers.

## **Fire Department**

The fire department is responsible for the protection of life and property from the ravages of fire. The fire department responds to residential, commercial, and industrial fires with specialized equipment designed to meet the needs of the particular fire. In addition, the department is able to respond to hazardous materials incidents, confined space rescue, and trench rescue.

The fire department provides advance life support emergency medical services in cases of sudden illness or injury. Licensed paramedics, working under the direction of a base hospital physician, provide quality pre-hospital emergency care with transportation to six area hospitals.

The Fire Prevention Division is involved in the enforcement of State laws and City ordinances that relate to fire protection and prevention. In addition, the department inspects commercial and industrial buildings, and multiple-unit dwellings for fire code violations. The division also conducts fire investigations and aids in the fire prevention effort through the development and presentation of public fire education programs.

## **Department of Public Services - Streets Division**

The Department of Public Services - Streets Division is responsible for maintaining the 106 miles of streets within the City. The Streets Division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs, and open drain repair. The Streets Division is upgrading street signs with a high density facing for a safer, more visible sign. The Streets Division will be performing both targeted and generalized concrete repair as part of the Ten-year Neighborhood Road Improvement Program that was initiated in 1997.

## **Department of Public Services - Solid Waste Division**

The Solid Waste Division is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, park cleanup, and catch basin cleanout. The quarterly City newsletter and website informs citizens of refuse and recycling rules and schedules. The City has established a mandatory recycling program. Recycled materials include metals, telephone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings, and leaves. Educational seminars for recycling and composting are conducted for schools and businesses. At considerable savings, the City has contracted out its refuse collection (January 1997) and refuse disposal (July 1997) operations.

## **Department of Public Services - Senior Citizen Division**

The Senior Citizens Division is responsible for hosting a wide range of programs for the City's senior citizens. The Senior Center provides a place for seniors to enjoy their leisure time participating in educational and recreational programs. Transportation is provided through the center for recreation, personal business appointments, and other activities. A daily lunch program, a home chore program (grass mowing and snow shoveling for financially needy seniors), and human services information and referral are also available.



## **Department of Public Services - Recreation Division**

The Recreation Division is responsible for conducting the City's leisure and recreational programs. The Recreation Division provides instructional programs in such areas as dance, tennis, swimming, and art. The "Festivals in the Park" series continues with great success. Team sports such as basketball, softball, and volleyball are also offered. The Recreation Division staff processes all registration, preparation, and distribution of flyers, evaluation and selection of programs and instructional personnel, and coordination of volunteer coaches.

## **Department of Public Services - Nature Center**

The Nature Center at Suarez Woods opened in October 1996 and operates with one full-time and one part-time naturalist and many volunteers. The Center is open six days a week (approximately 40 hours) and offers a variety of seasonal displays, programs, walking tours, and a small gift store. The Nature Center's goal is to provide visitors a better appreciation of nature. In doing so, interactive displays are changed seasonally. Live animals, taxidermy mounts, artwork, and special events are all a part of the experience. In addition to the building, the 36 acres of natural preservation located in the middle of a developed community leave the patron wanting more.

## **Department of Public Services - Parks Division**

The Parks Division is responsible for the maintenance of all City parks. In addition, the Parks Division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The Parks Division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees, and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the Parks Division.

## **Library Department**

The Library Department is a multifaceted service agency involved in meeting the community's needs for information in a variety of formats. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs, and books on tape.

The Library Department's ability to provide information is further enhanced by its membership in The Library Network (TLN). This membership allows for the electronic inter-loan of items from other TLN members. These items are then delivered to Madison Heights for patron pickup.

A myriad of additional services is offered by the Library, such as free home delivery of library materials to the physically challenged, temporarily homebound, and senior citizens. In an effort to better serve the City's significant and varied immigrant population, the Library offers English as a Second Language (ESL) collection consisting of books, audio cassettes, and videos designed to teach English. Personal computers, with Internet access, are available for use by patrons. A liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews, and children's programming are offered year round.

## **Community Development Department**

The Community Development Department consists of seven separate functions: Economic Development, Geographic Information Systems (GIS), Code Enforcement, Building, Planning and Zoning, Engineering, and Housing and Grant Administration; all personnel deal with developing and enhancing the quality of life in Madison Heights.

The Building Division performs inspections of new buildings, inspections of commercial buildings for business licenses, and inspections for landlord licenses. The Planning and Zoning Division provides recommendations on all matters coming before the Planning Commission, Zoning Board of Appeals, and the Downtown Development Authority. Staff also reviews proposed development to ensure compliance with the City's Zoning Ordinances and Master Plan. The Engineering Division administers, designs, and inspects City utility and road projects. It also provides engineering inspection for all private development. The GIS Division provides comprehensive mapping services to all City departments and the general public. Code Enforcement conducts inspections to determine compliance with various City codes.

The newly created Economic Development Division provides business retention, expansion and attraction resources, as well as direct support to the Downtown Development Authority and the Brownfield Redevelopment Authority.

### **Community Development Department - Community Improvement Division**

The Community Improvement Division is a federally funded division of the Community Development Department. The Community Improvement Division is charged with the administration of the City's Community Development Block Grant and Housing Commission Funds. Block grant funds are used for such things as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, neighborhood road improvements, and other similar projects that benefit low- and moderate-income residents. In addition, these funds provide assistance to low-income families in securing low interest and/or deferred home improvement loans. The City's Housing Commission funds are used to subsidize the rent for 261 low-income tenants.

## **General Administration Department**

The General Administration Department is responsible for conducting many of the City's centralized administrative functions. Examples of key roles include: purchasing; telephone administration; Internet website support; City calendar and annual report; coordinating citizens' requests for services; cable television production and regulation; and special projects as assigned.

### **Information Technology Office**

The Information Technology Office is responsible for supporting the City's Wide Area Network (WAN) and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production, and assistance in setting the technological direction for the City.

## **Department of Public Services - Water and Sewer Division**

The Water and Sewer Division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit Water and Sewerage Department. The Water and Sewer Division handles the installation, repair, and reading of all water meters. The Water and Sewer Division does all repair work on water and sewer mains, gatewells, maintenance hole and catch basin structures; all cleaning of sewer mains, catch basins, gatewells and culverts; and all other related services. The Water and Sewer Division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Oakland County Drain Commission for the treatment of sewage that enters its facilities.

## **Department of Public Services - Motor Pool Division**

The Motor Pool Division is responsible for maintaining all City vehicles and related equipment. The Motor Pool Division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The Motor Pool Division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The Motor Pool Division also orders gasoline and diesel fuel, and oversees the work done on all emergency backup generators.

## **Financial Information**

### **Internal Control**

The accounting principles and procedures currently in use by the City have been designed to enhance and coordinate internal accounting controls as well as to encourage adherence to prescribed managerial policies. The manner in which these controls are implemented reflects procedures designed to help ensure the safeguarding of assets and the reliability of accounting data to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that errors will be detected and prevented, if and when they occur. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

### **Single Audit**

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

## **Budgeting Controls**

The annual budget provides a basis of control over financial operations. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved budget. Activities of the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund are included in the annual appropriated budget. The level of budgetary control adopted by the City (that is, the level at which expenditures cannot legally exceed the appropriated amount) is based on total expenditures by fund, except for the General Fund, for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. These controls have assisted in the sound financial planning of the past by improving budgetary standards such as long-range programs for cyclical road, vehicle, and equipment replacement. The overall budget strategy is to address the current program obligations as efficiently as possible while also meeting the challenges of future needs for infrastructure improvements.

## **Management's Discussion and Analysis**

Found in the financial section of the City's Comprehensive Annual Financial Report is the Management's Discussion and Analysis section (MD&A). The MD&A provides an overview of the City of Madison Heights' financial activities for the year ended June 30, 2005 as well as management's commentary on significant financial events or circumstances.

## **Other Information**

### **Independent Audit**

The State statutes and City Charter require an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been fulfilled and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The auditor's report on the general purpose financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are reported under separate cover.

### **Certification**

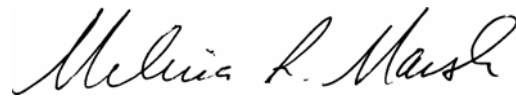
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison Heights for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

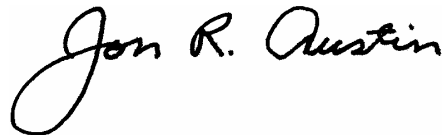
A Certificate of Achievement is valid for a period of one year only. The City of Madison Heights has received a Certificate of Achievement annually since the fiscal year ended June 30, 1992. City management believes our current report continues to conform to the Certificate of Achievement Program requirements and is submitting it to GFOA to determine its eligibility for a certificate.

### **Acknowledgments**

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department and the City Manager's Office. We express our appreciation to all members of the departments who assisted and contributed to its preparation. We also thank the City Council for its interest and support in conducting the financial operations of the City in a responsible and progressive manner.

A handwritten signature in black ink, reading "Melissa R. Marsh". The script is fluid and cursive.

Melissa R. Marsh  
Finance Director/Treasurer

A handwritten signature in black ink, reading "Jon R. Austin". The script is fluid and cursive.

Jon R. Austin  
City Manager

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Madison Heights,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

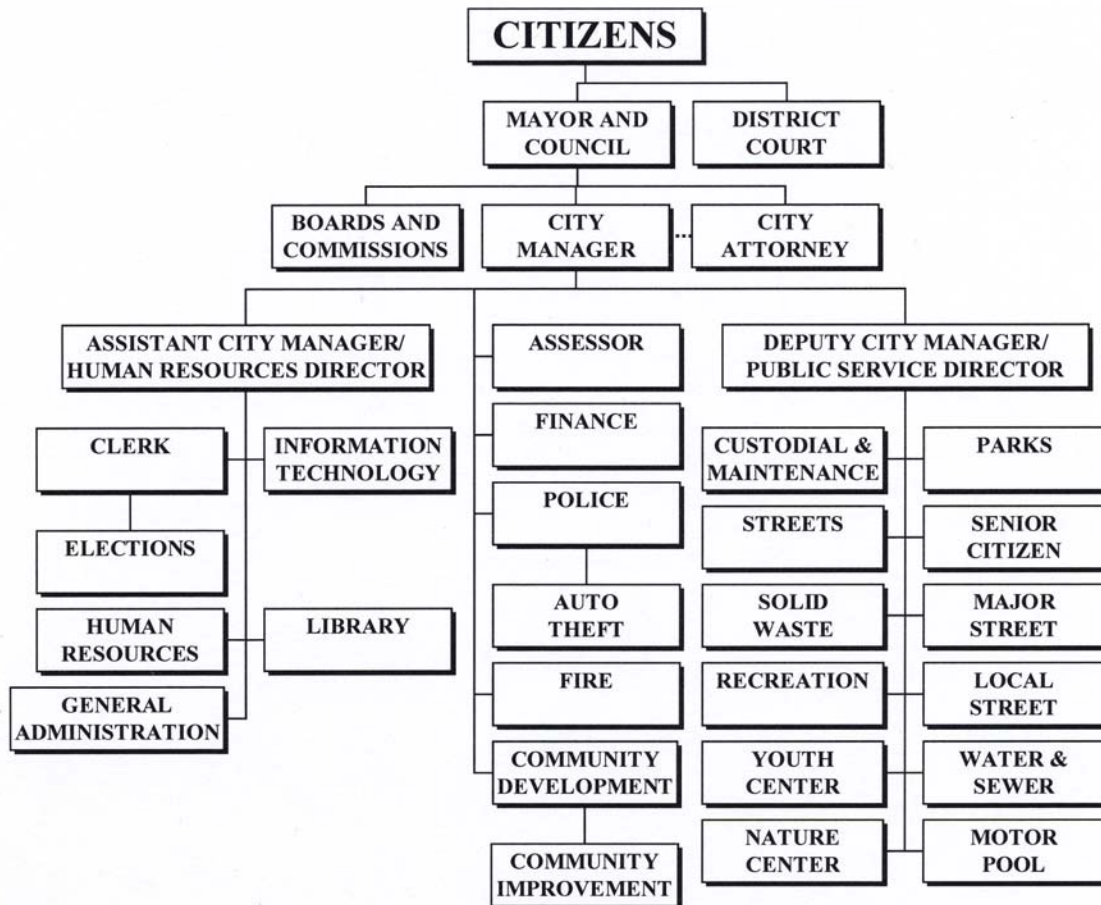
President

*Jeffrey R. Emer*

Executive Director

# CITY OF MADISON HEIGHTS

## ORGANIZATIONAL CHART



# City of Madison Heights, Michigan

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## List of Principal Officials June 30, 2005

Title	Name
Mayor	Edward C. Swanson
Mayor Pro Tem	Richard L. Clark
Council Member	Robert J. Corbett
Council Member	Gary R. McGillivray
Council Member	Marilyn R. Russell
Council Member	Margene A. Scott
Council Member	Toni F. Shad
City Manager	Jon R. Austin
Deputy City Manager	Peter J. Connors
Assistant City Manager	Benjamin I. Myers
Departmental Administrators:	
City Assessor	Dwayne G. McLachlan
City Clerk	Carole A. Corbett
Community Development	James T. Schafer
Finance Director/Treasurer	Melissa R. Marsh
Fire	Richard E. Donahue
Library	Roslyn F. Yerman
Police	Kevin M. Sagan



## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of the City of Madison Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 2, 2005

# **City of Madison Heights, Michigan**

## **Management's Discussion and Analysis (Continued)**

This discussion and analysis provides a narrative overview of the financial activities of the City of Madison Heights (the "City") for fiscal year ended June 30, 2005 (fiscal year 2005). This analysis provides an introduction and overview to readers to assist in interpreting and analyzing the City's basic financial statements and financial activities based upon currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

### **Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2005:

- The City's General Fund, Major Streets Fund, and Local Streets Fund have all increased fund balances at June 30, 2005. These increases in reserves are necessary to meet the City's long-term capital improvements and financial planning needs. As outlined in the notes to the financial statements, the General Fund's fund balance is designated to meet current and long-term liabilities of the City such as retiree health care and vested employee benefits.
- The City's total net assets were \$50.4 million for governmental activities and \$17.7 million for business-type activities at June 30, 2005. This reflects an increase in governmental activities' net assets of \$3.3 million or 7.1 percent from fiscal year 2004.
- During the fiscal year, the City received \$31 million in taxes and other governmental activity revenue, which represents an increase of \$1.2 million.
- Total governmental activity expenditures for the year were \$27.7 million or a decrease of \$1.1 million or 4.1 percent. The decrease in expenditures resulted from a reduction in capital asset purchases, departments downsizing through attrition, and the ongoing hiring freeze.
- The City has one business-type activity, the Water and Sewer Fund. Revenues are generated through charges to customers for commercial and residential water and sewer usage. Total revenues received were \$8.4 million, resulting in an increase in net assets of \$97,000 for fiscal year 2005.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Madison Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short-term, as well as what remains for future spending. The fund-based financial statements also report the City's operations in more detail than the government-wide financial statements.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Madison Heights as a Whole

The net assets of the City represent the difference between the City's total assets and total liabilities. Changes in the net assets can be a useful tool for governments to measure their performance over time. At the end of fiscal year 2005, the City's total net assets increased 5.3 percent from a year ago, increasing from \$64.6 million to \$68 million. At June 30, 2005, these net assets are categorized as those which are invested in capital assets net of related debt (71.1 percent or \$48.3 million), restricted by external requirements (14.8 percent or \$10.1 million), and those which are unrestricted (14.1 percent or \$9.6 million).

The City's net assets of \$48.3 million that are invested in capital assets net of related debt reflects its investment in capital assets such as land and buildings, less any related debt used to acquire those assets that is still outstanding. Since the City uses these assets to provide services to the citizens, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's restricted assets of approximately \$10.1 million are subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net assets of approximately \$9.6 million is unrestricted, but designated to meet ongoing obligations.

A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$3.3 million in net assets during fiscal year 2005. This increase was substantially due to the activities of the General, Major Streets, and Local Streets Funds. Within the General Fund, this increase was the result of diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property tax values within the City. Within both the Major and Local Streets Funds, revenues remained fairly consistent with the prior year. However, due to the fact that certain capital projects for which these revenues will be used were not scheduled to occur until after year end, net asset increases resulted. The net assets of the Major and Local Streets Funds increased in the current year by approximately \$380,000 and \$860,000 in the Major and Local Streets Funds, respectively. Net assets of business-type activities (Water and Sewer Fund) increased approximately \$97,000.

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows a comparison of net assets (in thousands of dollars) as of June 30, 2005 and June 30, 2004:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2004-2005	2003-2004	2004-2005	2003-2004	2004-2005	2003-2004
<b>Assets</b>						
Current assets	\$ 18,051	\$ 15,767	\$ 4,519	\$ 5,123	\$ 22,570	\$ 20,890
Noncurrent assets:						
Capital assets	41,694	41,300	23,707	21,953	65,401	63,253
Other	2,293	2,998	1,830	3,819	4,123	6,817
Total assets	62,038	60,065	30,056	30,895	92,094	90,960
<b>Liabilities</b>						
Current liabilities	3,535	3,469	1,457	1,507	4,992	4,976
Long-term liabilities	8,141	9,579	10,935	11,821	19,076	21,400
Total liabilities	11,676	13,048	12,392	13,328	24,068	26,376
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	36,089	36,389	12,285	10,132	48,374	46,521
Restricted	8,297	6,719	1,779	3,619	10,076	10,338
Unrestricted	5,976	3,909	3,600	3,816	9,576	7,725
Total net assets	<u>\$ 50,362</u>	<u>\$ 47,017</u>	<u>\$ 17,664</u>	<u>\$ 17,567</u>	<u>\$ 68,026</u>	<u>\$ 64,584</u>

# City of Madison Heights, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

As shown in the following table (in thousands of dollars), the City's revenues for its government activities increased by approximately \$1.2 million or 4 percent from the prior fiscal year. This increase is a reflection of an increase in property tax revenues, investment earnings, and a legal settlement with the South Oakland County Resource Recovery Authority. The City's tax base remains strong and vibrant due to the stability of major employers and taxpayers. Expenses decreased 4.1 percent from the previous fiscal year. The decrease in expenditures resulted from departments downsizing through attrition and the ongoing hiring freeze. Decreases were also attributed to a reduction in capital outlay purchases.

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2004-2005	2003-2004	2004-2005	2003-2004	2004-2005	2003-2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 3,320	\$ 3,076	\$ 8,325	\$ 7,929	\$ 11,645	\$ 11,005
Operating grants	2,208	2,206	-	-	2,208	2,206
Capital grants and contributions	1,091	1,547	5	958	1,096	2,505
General revenues:						
Property taxes	19,529	18,665	-	-	19,529	18,665
State-shared revenues	3,361	3,467	-	-	3,361	3,467
Unrestricted investment earnings	428	232	59	39	487	271
Franchise fees	313	308	-	-	313	308
Other	722	269	47	13	769	282
Total revenue	30,972	29,770	8,436	8,939	39,408	38,709
<b>Program Expenses</b>						
General government	4,761	6,046	-	-	4,761	6,046
Public safety	13,925	14,246	-	-	13,925	14,246
Public works	3,493	3,206	-	-	3,493	3,206
Solid waste	2,126	1,832	-	-	2,126	1,832
Community development	1,149	1,157	-	-	1,149	1,157
Recreation	2,213	2,351	-	-	2,213	2,351
Water and sewer	-	-	8,170	8,341	8,170	8,341
Total program expenses	27,667	28,838	8,170	8,341	35,837	37,179
<b>Increase in Net Assets - Before extraordinary item</b>						
	3,305	932	266	598	3,571	1,530
<b>Extraordinary Item - Gain (loss) on insurance settlement</b>						
	40	68	(169)	716	(129)	784
<b>Increase in Net Assets</b>	<b>\$ 3,345</b>	<b>\$ 1,000</b>	<b>\$ 97</b>	<b>\$ 1,314</b>	<b>\$ 3,442</b>	<b>\$ 2,314</b>

# **City of Madison Heights, Michigan**

## **Management's Discussion and Analysis (Continued)**

During the year, the City continued to meet the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments that were earned in the present. This year, the City also began to pre-fund retiree health care benefits.

### **Business-type Activities**

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to all of its residents and businesses. There was a water rate increase for fiscal 2004-2005 of approximately 13.6 percent. The City provides sewage treatment to all residential and businesses using the Southeast Oakland County Sewage Disposal System. There was also a rate increase for sewage treatment of 9.9 percent. Combined with all charges, the average water and sewer bill for a City resident increased approximately 9 percent in fiscal year 2004-2005. Despite this increase, the Water and Sewer Fund only had a \$97,069 increase in its net assets. Revenues from user charges increased by \$395,749 and net operating expenses declined by \$118,711.

### **General Fund Budgetary Highlights**

During the fiscal year, the City administration and City Council monitor and amend the original budget adopted by the City due to changes in the projected revenues and unanticipated events that occur throughout the year. Significant amongst the events of 2005 were the continuing decreases in revenue-sharing from the State of Michigan and the depressing effect on other revenue sources resulting from the continued slowdown in the Michigan economy. However, the results of 2005 were aided by two nonrecurring revenue items. The first was an unbudgeted receipt of a \$500,000 legal settlement. The settlement proceeds were transferred, as an unbudgeted expenditure, to a newly created employee retirement health care fund. The second unbudgeted nonrecurring revenue was the receipt of \$432,000 of insurance recoveries related to the DPW building fire that occurred in 2003. To combat the negative pressure on revenue, the City initiated a hiring freeze and certain other measures were initiated by the administration that continues to this day. Department heads were asked to cut expenses and to continue to explore innovative ways to add efficiencies to their operations. Finally, capital asset spending was reduced from the level of the prior year.

### **Economic Factors and Next Year's Budgets and Rates**

The condition of the State and local economies were key factors considered in the preparation of the City's fiscal year 2005-2006 budget. Below is a synopsis of significant issues that were weighed in the budget process.

- Increases in health care cost
- Upcoming requirements to report a liability related to future retiree health care expenditures
- Slow recovery of Michigan business and high unemployment

# **City of Madison Heights, Michigan**

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## **Management's Discussion and Analysis (Continued)**

- State of Michigan policy decision to shift funding away from municipalities

### **Request for Information**

This financial report is designed to give our citizens, taxpayers, customers, and investors with a general overview of the City's finances. Questions concerning any information in this report may be sent to the finance director/treasurer, City of Madison Heights, 300 West Thirteen Mile Road, Madison Heights, MI 48071.



# City of Madison Heights, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units
<b>Assets</b>				
Cash and investments (Note 2)	\$ 16,425,349	\$ 2,508,272	\$ 18,933,621	\$ 228,242
Special assessments receivable - Current	180,600	-	180,600	-
Accounts receivable (Note 3)	331,654	2,011,069	2,342,723	-
Due from other governmental units (Note 3)	840,846	-	840,846	37
Prepaid expenses and deposits	273,374	-	273,374	-
Noncurrent assets:				
Special assessments receivable - Deferred	1,976,726	-	1,976,726	-
Inventories	-	51,279	51,279	-
Restricted assets (Note 7)	316,251	1,779,083	2,095,334	-
Capital assets (Note 4)	<u>41,694,083</u>	<u>23,707,257</u>	<u>65,401,340</u>	<u>111,842</u>
Total assets	62,038,883	30,056,960	92,095,843	340,121
<b>Liabilities</b>				
Accounts payable	869,614	603,330	1,472,944	843
Accrued and other liabilities	764,668	257,647	1,022,315	5,848
Due to other governmental units	270	-	270	18,156
Due to police and fire retirement system	1,715,673	-	1,715,673	-
Deferred revenue	-	-	-	24,751
Deposits	-	109,026	109,026	70,193
Noncurrent liabilities (Note 6):				
Compensated absences and other claims	2,721,497	-	2,721,497	-
Long-term debt:				
Due within one year	185,000	487,206	672,206	-
Due in more than one year	<u>5,420,000</u>	<u>10,935,547</u>	<u>16,355,547</u>	<u>-</u>
Total liabilities	<u>11,676,722</u>	<u>12,392,756</u>	<u>24,069,478</u>	<u>119,791</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	36,089,083	12,284,504	48,373,587	111,842
Restricted:				
Major and Local Streets Funds - Construction and operations	7,783,260	-	7,783,260	-
Forfeiture Fund	127,546	-	127,546	-
Capital Projects Fund - Fire Station Fund	180,538	-	180,538	-
Debt administration	206,471	-	206,471	-
Water and Sewer Fund - Construction	-	1,779,083	1,779,083	-
Unrestricted	<u>5,975,263</u>	<u>3,600,617</u>	<u>9,575,880</u>	<u>108,488</u>
Total net assets	<u>\$ 50,362,161</u>	<u>\$ 17,664,204</u>	<u>\$ 68,026,365</u>	<u>\$ 220,330</u>

# City of Madison Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,760,472	\$ 1,900,886	\$ -	\$ -
Public safety	13,924,629	418,128	80,660	68,691
Public works	3,493,132	17,365	1,867,288	1,022,322
Solid waste and recycling	2,125,721	14,239	-	-
Community and economic development	1,149,729	690,482	192,832	-
Recreation and culture	2,213,159	279,345	67,269	-
Total governmental activities	27,666,842	3,320,445	2,208,049	1,091,013
Business-type activities - Water and sewer	8,169,948	8,324,632	-	5,433
Total primary government	<u>\$ 35,836,790</u>	<u>\$ 11,645,077</u>	<u>\$ 2,208,049</u>	<u>\$ 1,096,446</u>
Component units:				
Housing Commission	\$ 1,744,556	\$ -	\$ 1,731,012	\$ -
Downtown Development Authority	120,472	-	-	-
Total component units	<u>\$ 1,865,028</u>	<u>\$ -</u>	<u>\$ 1,731,012</u>	<u>\$ -</u>

## General revenues:

Property taxes  
State-shared revenues  
Unrestricted investment earnings  
Franchise taxes  
Settlement  
Miscellaneous

Extraordinary item - Gain (loss) on insurance settlement (Note 14)

Total general revenues and extraordinary item

## Change in Net Assets

Net Assets - July 1, 2004

Net Assets - June 30, 2005

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,859,586)	\$ -	\$ (2,859,586)	\$ -
(13,357,150)	-	(13,357,150)	-
(586,157)	-	(586,157)	-
(2,111,482)	-	(2,111,482)	-
(266,415)	-	(266,415)	-
(1,866,545)	-	(1,866,545)	-
(21,047,335)	-	(21,047,335)	-
-	160,117	160,117	-
(21,047,335)	160,117	(20,887,218)	-
-	-	-	(13,544)
-	-	-	(120,472)
-	-	-	(134,016)
19,528,806	-	19,528,806	133,180
3,360,542	-	3,360,542	-
427,797	58,567	486,364	3,809
313,482	-	313,482	-
500,000	-	500,000	-
221,312	47,173	268,485	13,544
40,375	(168,788)	(128,413)	-
24,392,314	(63,048)	24,329,266	150,533
3,344,979	97,069	3,442,048	16,517
47,017,182	17,567,135	64,584,317	203,813
<b>\$ 50,362,161</b>	<b>\$ 17,664,204</b>	<b>\$ 68,026,365</b>	<b>\$ 220,330</b>

# City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
<b>Assets</b>				
Cash and investments (Note 2)	\$ 7,871,273	\$ 1,759,264	\$ 5,787,656	\$ 673,139
Due from other governmental units (Note 3)	511,584	211,842	79,119	-
Accounts receivable (Note 3)	314,575	16,771	308	-
Special assessments receivable	-	-	-	2,157,326
Restricted assets (Note 7)	-	135,713	-	-
Prepaid expenses and deposits	273,374	-	-	-
Total assets	<u><b>\$ 8,970,806</b></u>	<u><b>\$ 2,123,590</b></u>	<u><b>\$ 5,867,083</b></u>	<u><b>\$ 2,830,465</b></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 631,326	\$ 6,525	\$ 173,696	\$ 25,368
Accrued and other liabilities	653,927	8,240	18,952	46,528
Due to other governmental units	270	-	-	-
Due to police and fire retirement system	1,715,673	-	-	-
Deferred revenue	277,449	-	-	1,976,726
Total liabilities	3,278,645	14,765	192,648	2,048,622
<b>Fund Balances</b>				
Reserved for:				
Debt administration - Reported in nonmajor				
Debt Service Fund	-	-	-	-
Construction:				
Special Revenue Funds	-	135,713	4,325,020	-
Capital Projects Fund	-	-	-	-
Prepaid expenses and deposits	273,374	-	-	-
Unreserved - Reported in (Note 13):				
General Fund	5,418,787	-	-	-
Special Revenue Funds	-	1,973,112	1,349,415	781,843
Unreserved, undesignated - Reported in nonmajor				
Special Revenue Fund	-	-	-	-
Total fund balances	<u>5,692,161</u>	<u>2,108,825</u>	<u>5,674,435</u>	<u>781,843</u>
Total liabilities and fund balances	<u><b>\$ 8,970,806</b></u>	<u><b>\$ 2,123,590</b></u>	<u><b>\$ 5,867,083</b></u>	<u><b>\$ 2,830,465</b></u>

**Governmental Funds  
Balance Sheet  
June 30, 2005**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 334,017	\$ 16,425,349
38,301	840,846
-	331,654
-	2,157,326
180,538	316,251
-	273,374
<u>          </u>	<u>          </u>
<b><u>\$ 552,856</u></b>	<b><u>\$ 20,344,800</u></b>
\$ 32,700	\$ 869,615
5,601	733,248
-	270
-	1,715,673
-	2,254,175
<u>          </u>	<u>          </u>
38,301	5,572,981
206,471	206,471
-	4,460,733
180,538	180,538
-	273,374
-	5,418,787
-	4,104,370
<u>127,546</u>	<u>127,546</u>
<u>514,555</u>	<u>14,771,819</u>
<b><u>\$ 552,856</u></b>	<b><u>\$ 20,344,800</u></b>

# City of Madison Heights, Michigan

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## Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2005

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 14,771,819</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	41,694,083
A portion of the special assessment receivable is expected to be collected over several years and was not available to pay for current year expenditures	1,976,726
Historically, personal property taxes, net of uncollectibles, are not recorded as revenue in the government-wide statements until they become available to pay for current year expenditures	277,449
Compensated absences are included as a liability in governmental activities	(2,243,550)
Long-term liabilities and contingencies that are not due and payable in the current period are not reported in the funds	(6,082,947)
Accrued interest is not reported in the funds	<u>(31,419)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 50,362,161</u></b>

# City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
<b>Revenues</b>				
Intergovernmental	\$ 3,640,805	\$ 1,378,200	\$ 507,843	\$ -
Federal sources	13,883	-	-	-
Property taxes	19,528,806	-	-	-
Other	5,581,775	75,409	63,851	572,435
Total revenues	28,765,269	1,453,609	571,694	572,435
<b>Expenditures</b>				
Current:				
General government	5,971,352	-	-	-
Public safety	13,368,256	-	-	-
Community development and improvement	3,875,460	619,182	618,716	25,370
Cultural and recreation	2,140,810	-	-	-
Capital outlay	-	115,782	2,178,031	5,836
Debt administration	-	-	-	-
Total expenditures	25,355,878	734,964	2,796,747	31,206
<b>Excess of Revenues Over (Under) Expenditures</b>	3,409,391	718,645	(2,225,053)	541,229
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	10,000	3,086,598	-
Operating transfers out	(2,600,678)	(350,000)	-	(563,000)
Total other financing sources (uses)	(2,600,678)	(340,000)	3,086,598	(563,000)
<b>Change in Fund Balances</b>	808,713	378,645	861,545	(21,771)
<b>Extraordinary Item</b> - Insurance proceeds (Note 14)	432,675	-	-	-
<b>Net Change in Fund Balances</b>	1,241,388	378,645	861,545	(21,771)
<b>Fund Balances</b> - July 1, 2004	4,450,773	1,730,180	4,812,890	803,614
<b>Fund Balances</b> - June 30, 2005	<u>\$ 5,692,161</u>	<u>\$ 2,108,825</u>	<u>\$ 5,674,435</u>	<u>\$ 781,843</u>

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**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2005**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 32,817	\$ 5,559,665
192,832	206,715
-	19,528,806
<u>75,167</u>	<u>6,368,637</u>
300,816	31,663,823
-	5,971,352
48,525	13,416,781
144,470	5,283,198
-	2,140,810
686,640	2,986,289
<u>358,585</u>	<u>358,585</u>
<u>1,238,220</u>	<u>30,157,015</u>
(937,404)	1,506,808
465,463	3,562,061
<u>(48,383)</u>	<u>(3,562,061)</u>
<u>417,080</u>	<u>-</u>
(520,324)	1,506,808
<u>-</u>	<u>432,675</u>
(520,324)	1,939,483
<u>1,034,879</u>	<u>12,832,336</u>
<u><b>\$ 514,555</b></u>	<u><b>\$ 14,771,819</b></u>



# City of Madison Heights, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 1,939,483**

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	3,270,853
Statement of activities records depreciation on capital assets	(2,707,846)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(169,343)
Special assessment revenues are recorded in the statement of activities when the assessed project is substantially complete; revenues are not reported in the funds until receivables are collected or collectable within 60 days of year end	469,633
A portion of insurance proceeds recognized as revenue in the statement of activities in the prior year was recognized in the governmental funds in the current year when it became available to pay for current year expenditures	(392,300)
Debt payments on governmental obligation bonds are recorded in the statement of activities, but not in the governmental funds	165,000
Changes in interest payable are accrued and expensed on the statement of activities, but not in the governmental funds	14,009
Net changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when the obligations are earned in the statement of activities	<u>755,490</u>

**Change in Net Assets of Governmental Activities** **\$ 3,344,979**

# City of Madison Heights, Michigan

## Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Net Assets June 30, 2005

### Assets

#### Current assets:

Cash and cash equivalents (Note 2)	\$ 2,508,272
Accounts receivable	2,011,069
Inventories	<u>51,279</u>

Total current assets 4,570,620

#### Noncurrent assets:

Restricted assets (Note 7)	1,779,083
Capital assets (Note 4)	<u>23,707,257</u>

Total noncurrent assets 25,486,340

Total assets 30,056,960

### Liabilities

#### Current liabilities:

Accounts payable	603,330
Accrued liabilities	257,647
Cash bonds and deposits	109,026
Long-term debt - Due within one year (Note 6)	<u>487,206</u>

Total current liabilities 1,457,209

Noncurrent liability - Long-term debt - Net of amount due within  
one year (Note 6)

10,935,547

Total liabilities 12,392,756

### Net Assets

Invested in capital assets - Net of related debt	12,284,504
Restricted	1,779,083
Unrestricted	<u>3,600,617</u>

Total net assets \$ 17,664,204

# City of Madison Heights, Michigan

## **Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2005**

### **Operating Revenues**

Sale of water	\$ 3,645,392
Sewage disposal	4,649,690
Other charges for services	<u>29,550</u>
Total operating revenues	8,324,632

### **Operating Expenses**

Cost of water	1,852,549
Cost of sewage disposal	3,328,295
Water system maintenance	660,894
Water tapping and installation	23,139
Sewer system maintenance	449,476
General services building	200,096
General administration	1,089,761
Depreciation	<u>510,236</u>
Total operating expenses	<u>8,114,446</u>

### **Operating Income**

210,186

### **Nonoperating Revenue (Expenses)**

Interest and other income	105,740
Loss on sale of fixed assets	(1,627)
Interest expense - Net of capitalized interest	<u>(53,875)</u>

### **Income - Before capital contributions and extraordinary item**

260,424

### **Capital Contributions**

5,433

### **Extraordinary Item - Loss on insurance settlement (Note 14)**

(168,788)

### **Change in Net Assets**

97,069

### **Net Assets - July 1, 2004**

17,567,135

### **Net Assets - June 30, 2005**

\$ 17,664,204

# City of Madison Heights, Michigan

## Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2005

### Cash Flows from Operating Activities

Receipts from customers	\$ 8,417,888
Payments to employees	(591,442)
Payments to suppliers	<u>(7,075,261)</u>
Net cash provided by operating activities	751,185

### Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt and related deposits with paying agent - Net of capitalized interest	(575,744)
Purchase of capital assets - Including capitalized interest	(791,011)
Insurance and other proceeds	<u>81,895</u>
Net cash used in capital and related financing activities	(1,284,860)

### Cash Flows from Investing Activities - Interest received on investments

58,567

### Net Decrease in Cash and Cash Equivalents

(475,108)

### Cash and Cash Equivalents - July 1, 2004

2,983,380

### Cash and Cash Equivalents - June 30, 2005

\$ 2,508,272

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 210,186
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	510,236
Changes in assets and liabilities:	
Customer receivables	93,256
Inventory	(15,435)
Accounts payable	(59,593)
Accrued liabilities	5,380
Cash bonds and deposits	<u>7,155</u>
Net cash provided by operating activities	<u><u>\$ 751,185</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2005, the Water and Sewer Fund received debt draw-downs totaling \$56,721, recorded \$5,433 in capital contributions, and spent \$1,469,530 (net of \$19,284 in off-setting interest earnings) for construction related to the new George W. Kuhn Drain wastewater facilities. This activity, administered by Oakland County, Michigan, is recorded in the restricted assets held at the County.

# City of Madison Heights, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2005

	Trust Fund - Pension and Other Retirement Benefits	Agency Funds
	Police and Fire Retirement	
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 662,252
Investments:		
Corporate bonds and notes	4,306,978	-
U.S. government securities	5,369,171	-
Federal agency obligations	4,630,599	-
Common stocks	11,496,491	-
Broker cash management funds	2,977,059	-
Small cap mutual funds	18,449,206	-
Accrued interest receivable and other	213,487	-
Due from City General Fund	1,715,673	-
Total assets	49,158,664	<u><u>\$ 662,252</u></u>
<b>Liabilities</b>		
Accounts payable	-	\$ 87,789
Prepaid taxes	-	81,902
Cash bonds and deposits	-	492,561
Total liabilities	-	<u><u>\$ 662,252</u></u>
<b>Net Assets</b> - Reserved for police and fire retirement	<u><u>\$ 49,158,664</u></u>	

# City of Madison Heights, Michigan

## Trust Fund Statement of Changes in Net Assets Year Ended June 30, 2005

		Police and Fire Retirement System Trust Fund
<b>Additions</b>		
Investment income:		
Interest and dividends	\$	1,531,893
Net appreciation of investment value		1,247,382
Less investment expenses		<u>(202,447)</u>
Net investment income		2,576,828
Contributions:		
Employer:		
Pension benefits	\$	1,513,226
Postretirement benefits		933,831
Administrative expenses		<u>430,724</u>
Employees		<u>492,040</u>
Total contributions		<u>3,369,821</u>
Total additions		5,946,649
<b>Deductions</b>		
Benefit payments:		
Pension		2,872,504
Postretirement medical benefits		<u>933,831</u>
Administrative expenses		<u>228,277</u>
Total deductions		<u>4,034,612</u>
<b>Net Increase</b>		1,912,037
<b>Net Assets</b> - Reserved for police and fire retirement		
Beginning of year		<u>47,246,627</u>
End of year		<u><u>\$ 49,158,664</u></u>

# City of Madison Heights, Michigan

## Component Units Statement of Net Assets June 30, 2005

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets</b>				
Cash and investments (Note 2)	\$ 119,255	\$ 2,392	\$ 106,595	\$ 228,242
Due from other governmental unit	37	-	-	37
Capital assets (Note 4)	<u>-</u>	<u>-</u>	<u>111,842</u>	<u>111,842</u>
Total assets	119,292	2,392	218,437	340,121
<b>Liabilities</b>				
Accounts payable	344	-	499	843
Accrued liabilities	5,848	-	-	5,848
Due to other governmental unit	18,156	-	-	18,156
Deferred revenue	24,751	-	-	24,751
Deposits	<u>70,193</u>	<u>-</u>	<u>-</u>	<u>70,193</u>
Total liabilities	<u>119,292</u>	<u>-</u>	<u>499</u>	<u>119,791</u>
<b>Net Assets</b>				
Invested in capital assets	-	-	111,842	111,842
Unrestricted	<u>-</u>	<u>2,392</u>	<u>106,096</u>	<u>108,488</u>
Total net assets	<u>\$ -</u>	<u>\$ 2,392</u>	<u>\$ 217,938</u>	<u>\$ 220,330</u>

# City of Madison Heights, Michigan

		Program Revenues	
		Operating	Capital Grants
	Charges for	Grants and	and
Expenses	Services	Contributions	Contributions
Housing Commission	\$ 1,744,556	\$ -	\$ 1,731,012
Economic Development Corporation	-	-	-
Downtown Development Authority	120,472	-	-
Total governmental activities	<u>\$ 1,865,028</u>	<u>\$ -</u>	<u>\$ 1,731,012</u>

## General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

## Change in Net Assets

Net Assets - July 1, 2004

Net Assets - June 30, 2005



**Component Units  
Statement of Activities  
Year Ended June 30, 2005**

Net (Expense) Revenues and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ (13,544)	\$ -	\$ -	\$ (13,544)
-	-	-	-
-	-	(120,472)	(120,472)
(13,544)	-	(120,472)	(134,016)
-	-	133,180	133,180
-	39	3,770	3,809
13,544	-	-	13,544
13,544	39	136,950	150,533
-	39	16,478	16,517
-	2,353	201,460	203,813
<u>\$ -</u>	<u>\$ 2,392</u>	<u>\$ 217,938</u>	<u>\$ 220,330</u>

# **City of Madison Heights, Michigan**

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## **Notes to Financial Statements June 30, 2005**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Madison Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

The Madison Heights Municipal Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

#### **Discretely Presented Component Units**

##### **Housing Commission**

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the U.S. Department of Housing and Urban Development. The Housing Commission serves over 200 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council.

# **City of Madison Heights, Michigan**

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## **Notes to Financial Statements June 30, 2005**

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Economic Development Corporation**

The Economic Development Corporation (the "Corporation") is organized pursuant to Public Act 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the issuance of limited general obligation revenue bonds by the Corporation. The bonds are payable solely from the net revenue derived from the respective projects and are not an obligation of the Corporation. The Corporation's governing body consists of five individuals selected by the City Council. In addition, the Corporation's budget is subject to approval by the City Council.

#### **Downtown Development Authority**

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to Ten Mile Road and Eleven Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

#### **Brownfield Redevelopment Authority**

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Downtown Development Authority's board members. Currently, the Authority is in the preliminary stages of development and activities are non-financial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb Counties.

**Local Streets Fund** - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds (including transfer from the City's General Fund of the proceeds of a special 2 mill property tax levy for neighborhood road improvements), and interest income.

**Revolving Fund** - The Revolving Fund's purpose is to record revenues and related project expenditures for special assessment districts that are not funded by bond issues.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

The City also reports its major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

Additionally, the City reports the following nonmajor governmental and Agency Funds:

**Curtail Auto Theft Fund** - The Curtail Auto Theft Fund administers grant funds from the State of Michigan for the purpose of a multi-jurisdictional anti-theft unit in the police department. The City provides one police officer and the training that is needed to fulfill the duties.

**Community Improvement Fund Program** - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's Block Grant program. Block Grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low interest and/or deferred home improvement loans.

**Forfeiture Fund** - The Forfeiture Fund is used to account for revenues generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

**Fire Station Capital Projects Fund** - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters.

**Fire Station Debt Service Fund** - The Fire Station Debt Service Fund accounts for the principal and interest payments on the bonds for the new fire station headquarters. Revenues to this fund are generated by an ad valorem property tax.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Police and Fire Retirement Fund** - The Police and Fire Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

**Tax Collection Fund** - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

**Escrow Fund** - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

**Proprietary Funds** - Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund relate to charges to customers for water sales and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as contributed capital.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the Police and Fire Retirement System) and the component units of the City are allocated to each fund and component unit using a weighted average of the invested principal balances.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

**Property Tax Revenue** - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the City totaled \$1,114 million and was used for the July 1, 2004 tax bills; this resulted in property tax revenue as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City charter operating millage	8.816	\$ 9,851,000
Solid waste	2.175	2,386,000
Police and fire retirement	2.475	2,715,000
Neighborhood roads	1.930	2,117,000
Major vehicles	0.475	521,000
Advanced life support systems	0.240	263,000
Senior citizens	0.474	520,000
Fire Station Bond	0.410	450,000



# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note I - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both government-wide and fund financial statements.

**Restricted Assets** - Assets of the Major Streets Fund have been restricted for future construction pursuant to a legal agreement and fund balance in the corresponding amount of \$135,713 has been reserved.

The assets of the Capital Projects Fund have been restricted for construction by the bond ordinance and fund balance has been reserved for future construction costs.

Assets of the Water and Sewer Fund held at the County represent unspent bond and loan proceeds held by the County for future construction. Net assets of the Water and Sewer Fund have been restricted for the \$1,779,083 held by the County for future construction.

**Capital Assets** - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Building and land improvements	50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Office equipment	5-10 years
Vehicles	5 years

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

Infrastructure assets are depreciated using the straight-line method over the following useful lives:

Streets and bridges	15-50 years
Sidewalks	15 years
Utility system	20-50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are generally reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in the items listed above under State statutory authority. The City's deposits and investment policies are in accordance with statutory authority.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$17,268,869 of bank deposits (certificates of deposit, checking, and savings accounts). Of that amount, \$500,000 was covered by federal depository insurance and approximately \$16,769,000 was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Corporate bonds and notes	\$ 3,630,218	6.2 years
Corporate asset-backed securities	676,760	3.1 years
U.S. government securities	5,369,171	5.0 years
U.S. federal agency obligations	4,630,599	13.5 years
Interlocal agreement fund	1,000,000	.25 years

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 401,896	AAA	S&P
Corporate bonds and notes	48,148	AA-	S&P
Corporate bonds and notes	1,336,004	A+	S&P
Corporate bonds and notes	845,157	A	S&P
Corporate bonds and notes	324,233	A-	S&P
Corporate bonds and notes	234,169	BBB+	S&P
Corporate bonds and notes	192,246	BBB	S&P
Corporate bonds and notes	248,365	BBB-	S&P
Corporate asset-backed securities	676,760	AAA	S&P
U.S. federal agency obligations	4,630,599	AAA	S&P
Interlocal agreement fund	1,000,000	Not rated	
Bank investment fund - MIF	5,496,000	Not rated	
Broker cash management funds	2,977,059	AA	S&P
Mutual funds	18,449,206	Not rated	

### Note 3 - Receivables

Receivables as of year end for the City's individual major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts (of which there were none) for the year ended June 30, 2005, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Receivables:					
Accounts	\$ 314,575	\$ 16,771	\$ 308	\$ -	\$ 331,654
Intergovernmental	<u>511,584</u>	<u>211,842</u>	<u>79,119</u>	<u>38,301</u>	<u>840,846</u>
Net receivables	<u>\$ 826,159</u>	<u>\$ 228,613</u>	<u>\$ 79,427</u>	<u>\$ 38,301</u>	<u>\$ 1,172,500</u>

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Personal property taxes	\$ 277,449
Special assessments	<u>1,976,726</u>
Total	<u><u>\$ 2,254,175</u></u>

### Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 2,189,153	\$ -	\$ -	\$ 2,189,153
Capital assets being depreciated:				
Infrastructure:				
Streets and bridges	28,357,009	2,126,135	-	30,483,144
Sidewalks	1,979,548	-	-	1,979,548
Buildings and improvements	16,054,079	740,825	324,295	16,470,609
Land improvements	1,619,889	48,027	4,970	1,662,946
Machinery and equipment	1,490,029	2,700	-	1,492,729
Furniture and fixtures	297,324	88,011	4,067	381,268
Vehicles	6,107,146	206,943	91,045	6,223,044
Office equipment	<u>2,652,569</u>	<u>58,212</u>	<u>19,486</u>	<u>2,691,295</u>
Subtotal	58,557,593	3,270,853	443,863	61,384,583
Accumulated depreciation:				
Infrastructure:				
Streets and bridges	8,587,247	1,149,294	-	9,736,541
Sidewalks	991,521	104,736	-	1,096,257
Buildings and improvements	3,951,682	285,600	167,569	4,069,713
Land improvements	379,948	29,158	4,473	404,633
Vehicles	2,564,001	777,439	79,360	3,262,080
Other assets	<u>2,971,928</u>	<u>361,619</u>	<u>23,118</u>	<u>3,310,429</u>
Subtotal	<u>19,446,327</u>	<u>2,707,846</u>	<u>274,520</u>	<u>21,879,653</u>
Net capital assets being depreciated	<u>39,111,266</u>	<u>563,007</u>	<u>169,343</u>	<u>39,504,930</u>
Net capital assets	<u>\$ 41,300,419</u>	<u>\$ 563,007</u>	<u>\$ 169,343</u>	<u>\$ 41,694,083</u>

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Business-type activities (Water and Sewer Fund):				
Capital assets not being depreciated:				
Land	\$ 164,413	\$ -	\$ -	\$ 164,413
Construction in progress	7,681,237	1,719,288	-	9,400,525
Subtotal	7,845,650	1,719,288	-	9,564,938
Capital assets being depreciated:				
Utility systems	16,890,721	430,079	-	17,320,800
Kuhn drain - Segment I	2,660,734	3,569	-	2,664,303
Buildings and improvements	2,688,828	24,620	-	2,713,448
Machinery and equipment	2,219,316	88,418	16,275	2,291,459
Subtotal	24,459,599	546,686	16,275	24,990,010
Accumulated depreciation:				
Utility systems	8,495,459	330,092	-	8,825,551
Kuhn drain - Segment I	41,330	41,330	-	82,660
Buildings and improvements	160,952	-	-	160,952
Machinery and equipment	1,654,362	138,814	14,648	1,778,528
Subtotal	10,352,103	510,236	14,648	10,847,691
Net capital assets being depreciated	14,107,496	36,450	1,627	14,142,319
Net capital assets	\$ 21,953,146	\$ 1,755,738	\$ 1,627	\$ 23,707,257

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 355,758
Public safety	573,975
Public works	1,464,761
Community development	35,728
Recreation	143,876
Solid waste	133,748

Total governmental activities \$ 2,707,846

Business-type activities - Water and sewer \$ 510,236

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

#### Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$111,842, which considers accumulated depreciation of \$10,517 as of June 30, 2005. There are no current year additions, and depreciation expense for the current year was \$2,202.

### Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2005, the City did not have any interfund receivables or payables other than the \$1,654,360 payable from the General Fund to the Police and Fire Retirement Fund.

Interfund transfers reported in the fund statements are as follows:

	Transfers Out				Total
	General Fund	Major Streets Fund	Revolving	Community Improvement	
Transfers in:					
Major Streets Fund	\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
Local Streets Fund	2,135,215	350,000	553,000	48,383	3,086,598
Other governmental funds:					
Fire Station Debt Service Fund	449,755	-	-	-	449,755
Curtail Auto Theft Fund	15,708	-	-	-	15,708
Total	<u>\$ 2,600,678</u>	<u>\$ 350,000</u>	<u>\$ 563,000</u>	<u>\$ 48,383</u>	<u>\$ 3,562,061</u>

The transfer from the General Fund to the Local Streets Fund represents the transfer of property taxes collected for a special street millage. The transfer from the General Fund to the Fire Station Debt Service Fund represents the transfer of property taxes collected to pay the debt service requirement on the Fire Station Bond. The transfer from the General Fund to the Curtail Auto Theft (CAT) Fund represents CAT Grant monies. The transfer from the Major Streets Fund to the Local Streets Fund represents a transfer of Act 51 monies. The transfers from the Revolving Fund and the Community Improvement Fund to the Major Streets and Local Streets Funds were to transfer monies for projects to improve major and local streets within the community.



# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<b>Governmental activities:</b>							
General obligations:							
Vested employee benefits	-	-	\$ 2,202,437	\$ 41,113	\$ -	\$ 2,243,550	\$ -
Reserve for general liability insurance claims	-	-	1,274,550	-	796,603	477,947	-
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station	2%-3.875%	2021	5,770,000	-	165,000	5,605,000	185,000
Total governmental activities			<u>\$ 9,246,987</u>	<u>\$ 41,113</u>	<u>\$ 961,603</u>	<u>\$ 8,326,497</u>	<u>\$ 185,000</u>
<b>Business-type activities:</b>							
Water and Sewer Revenue Bonds:							
Amount of issue - \$1,500,000							
For the purpose of financing water and sewer improvements	5%	2005	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
General obligations (related to the George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	1,675,859	56,721	77,343	1,655,237	79,447
Series 2000B - Amount of issue - \$691,348	4.75%-5.375%	2022	649,256	-	23,676	625,580	23,676
Series 2000C - Net of \$170,748 amounts not drawn down as of June 30, 2005 - \$8,649,747	2.5%	2024	8,747,493	-	607,328	8,140,165	347,253
Series 2000D - Amount of issue - \$333,573 - Net of \$333,573 not drawn down as of June 30, 2005	2.5%	2024	-	-	-	-	-
Series 2000E - Amount of issue - \$1,038,601	4.0%-5.25%	2024	1,038,601	-	36,830	1,001,771	36,830
Total business-type activities			<u>\$ 12,306,209</u>	<u>\$ 56,721</u>	<u>\$ 940,177</u>	<u>\$ 11,422,753</u>	<u>\$ 487,206</u>

### Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies, employees earn sick, vacation, and longevity time based on time of service with the City.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

The reserve for general liability insurance claims is discussed in Note 8.

#### Business-type Activities

The five general obligations recorded in the Enterprise Fund represent the City's obligations to service a portion, approximating 10.5 percent, of two bond issues and three State Revolving Fund loans related to the sewer construction project discussed in Note 11.

The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Enterprise (Water and Sewer) Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenues of this fund.

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2005 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Governmental-type Activities			Business-type Activities (Water and Sewer Fund)		
	Principal	Interest	Total	Principal*	Interest*	Total
2006	\$ 185,000	\$ 188,535	\$ 373,535	\$ 487,206	\$ 325,073	\$ 812,279
2007	195,000	184,835	379,835	500,360	311,771	812,131
2008	210,000	180,448	390,448	513,513	297,971	811,484
2009	220,000	175,198	395,198	527,193	283,686	810,879
2010	235,000	169,148	404,148	541,398	268,993	810,391
2011-2015	1,370,000	771,628	2,141,628	2,938,514	1,108,977	4,047,491
2016-2020	1,835,000	475,970	2,310,970	3,377,296	658,858	4,036,154
2021-2024	1,355,000	109,663	1,464,663	3,041,594	167,529	3,209,123
Total	<u>\$ 5,605,000</u>	<u>\$ 2,255,425</u>	<u>\$ 7,860,425</u>	<u>\$ 11,927,074</u>	<u>\$ 3,422,858</u>	<u>\$ 15,349,932</u>

\* The business-type general obligations related to the State Revolving Fund loans accrue interest only on the portion of the loans drawn down to date. The principal and interest components related to these instruments in the above maturity schedule assume that the \$504,321 undrawn portions of the obligations are drawn on July 1, 2005.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

#### Interest

The City's business-type activities had total interest expense for the year ended June 30, 2005 of approximately \$303,000 (of which approximately \$250,000, net of off-setting interest income, was capitalized in the Water and Sewer Fund.) The City's governmental-type activities had total interest expense of approximately \$192,000 for the same period.

#### No Commitment Debt

Excluded from the governmental activities obligations are revenue bonds of the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenues derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of June 30, 2005, there were four series of such bonds outstanding. The aggregate original issue amount of these bonds was \$9,590,000. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

### Note 7 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Funds		Enterprise Fund - Water and Sewer	
	Special Revenue Fund - Major Streets	Capital Projects Fund - Fire Station	Construction	Total
Cash and investments	\$ 135,713	\$ 180,538	\$ -	\$ 316,251
Assets held at the County	-	-	1,779,083	1,779,083
Net assets restricted	<u>\$ 135,713</u>	<u>\$ 180,538</u>	<u>\$ 1,779,083</u>	<u>\$ 2,095,334</u>

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental, optical, and life insurance claims, participates in the Michigan Municipal League risk pool for workers' compensation claims, and participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$462,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net assets. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that the Authority previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability for the past two fiscal years were as follows:

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 6.40 percent of gross wages for firefighters and fire command, 8.0 percent for police command, 6.67 percent for police, and 9.41 percent for department heads. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2005, the City's General Fund contributed, and the Police and Fire Retirement expensed, \$659,000 related to investment and administrative expenses.

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost was \$1,513,226, excluding contributions for postretirement benefits and administrative expenses, investment expenses, and exclusive of employee contributions of \$492,040. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. As of June 30, 2004, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The underfunded actuarial liability is being amortized over a closed 20-year period.

Three-year trend information is as follows:

	Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ 951,923	\$ 1,221,459	\$ 1,513,226
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

**Reserves** - As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 6,272,726
Reserve for retired benefit payments	30,091,853

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

#### **Supplementary Information**

The required supplementary information presented directly following the notes to the financial statements contained in the combining and individual fund section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

#### **Postemployment Health Care Plan**

Effective July 1, 1988, the Police and Fire Retirement System assumed the reporting responsibility for the payment of the current cost of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2005, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$933,831. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

#### **Municipal Employees' Retirement System of Michigan**

**Plan Description** - The City of Madison Heights participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0.0 percent to 3.09 percent of gross wages.

# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

#### **Supplementary Information**

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**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0.0 percent to 3.09 percent of gross wages.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost of \$525,888 for the plan, exclusive of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization period is 30 years.

Three-year trend information is as follows:

	Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ 372,744	\$ 454,680	\$ 525,888
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

The schedule of funding progress is as follows (in millions):

#### Municipal Employees' Retirement System of Michigan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
12/31/02	\$ 22.30	\$ 23.83	\$ 1.53	\$ 5.30	28.9	93.6
12/31/03	23.18	25.52	2.34	5.50	42.6	90.8
12/31/04	23.90	27.64	3.74	5.69	65.7	86.5



# City of Madison Heights, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 10 - Postemployment Benefits

The City provides health care benefits to retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 123 retirees are eligible. Benefits of retirees other than police and fire retirees are paid and expensed by the General Fund and totaled \$480,661 for the year ended June 30, 2005. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fund utilizing funds contributed by the General Fund for this purpose.

During the year ended June 30, 2005, the Police and Fire Retirement Fund expensed \$933,831 for these benefits (see Note 9).

In the current year, the City initiated a fund pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of retiree health care benefits. Also in the current year, the General Fund contributed \$500,000 to the fund. The contribution was a direct result of a settlement in the same amount representing the City's net historical investment in Southeastern Oakland County Resource Recovery Authority (SOCRRA) at the time it withdrew from this joint venture. The fund assets were placed in the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust. Given that this plan is administered by MERS, the City does not report the plan's assets within the basic financial statements.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncements provide guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncements are effective for the City's fiscal years ending June 30, 2008 and June 30, 2009 for Statement No. 43 and Statement No. 45, respectively.

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 11 - Commitments

**Infrastructure Construction** - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the George W. Kuhn Drain to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The SOCSDS is financing the project by issuing debt, including low-interest (2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the SOCSDS communities have obtained approximately \$4.3 million in federal grants for the project.

As of June 30, 2005, the SOCSDS had obtained aggregate financing of approximately \$120,000,000 (of which approximately \$115,000,000 had been received or drawn down) and had incurred approximately \$109,000,000 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2005 was approximately \$12,000,000 of system improvements and construction in progress, \$1,779,000 of assets held at the County, and \$11,423,000 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

### Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2004	\$ (939,155)
Current year building permit revenue	562,488
Current year related expenses:	
Direct costs	\$ 372,440
Estimated indirect costs	<u>289,720</u>
Total construction code expenditures	<u>662,160</u>
Cumulative shortfall - June 30, 2005	<u>\$ (1,038,827)</u>

# City of Madison Heights, Michigan

## Notes to Financial Statements June 30, 2005

### Note 13 - Designated Fund Balances

The following is a summary of the unreserved fund balances of the major governmental funds with management's designations:

Designated for	Funds			
	General	Major Streets	Local Streets	Revolving
Vested employee benefits	\$ 2,243,550	\$ -	\$ -	\$ -
Subsequent years' expenditures	436,191	819,487	196,918	215,664
Retiree health benefits	825,070	-	-	-
Retained insurance risks	477,947	-	-	-
Vehicle replacement	1,136,029	-	-	-
Capital improvements	300,000	-	-	-
Anticipated refunds	-	-	-	25,368
Total designated	5,418,787	819,487	196,918	241,032
Total undesignated	-	1,153,625	1,152,497	540,811
Total unreserved	<u>\$ 5,418,787</u>	<u>\$ 1,973,112</u>	<u>\$ 1,349,415</u>	<u>\$ 781,843</u>

### Note 14 - Extraordinary Item Related to Insurance Settlement

During the year ended June 30, 2003, a fire occurred at a building that is an asset of the Water and Sewer Fund, extensively damaging the structure. Also damaged or destroyed in the fire were a significant number of vehicles and a large amount of tools, supplies, furniture, and equipment. Other than the building itself, virtually all of the lost assets were the property of the governmental funds.

In the year ended June 30, 2003, the City filed an insurance claim to restore the building, recover the insured value of impaired assets (generally at fair value as opposed to original or replacement cost), and recover other costs incident to the event, consistent with the terms of the City's insurance coverage. Additionally, the City wrote off the net carrying value (historic cost less accumulated depreciation) of the destroyed assets that had previously been capitalized. The claim amount was adjusted in both the years ended June 30, 2004 and June 30, 2005 as cost estimates changed.

In the current year, a final settlement was received. A positive adjustment was made to the General Fund portion of the settlement and a negative adjustment was made to the Water and Sewer Fund portion of the settlement. These amounts are reported as extraordinary items in the statement of activities for the year ended June 30, 2005. The claim adjustments related principally to the revision of the costs necessary to restore the damaged building.

# **City of Madison Heights, Michigan**

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## **Notes to Financial Statements June 30, 2005**

### **Note 14 - Extraordinary Item Related to Insurance Settlement (Continued)**

In the governmental funds statement of revenue, expenditures, and changes in fund balance for the year ended June 30, 2005, the General Fund recognized an extraordinary item related to the insurance recovery of \$432,675. This amount includes the current year receipt of the receivable that had been recorded in the prior year but had not been available for use as of that date. The Water and Sewer Fund recognized a loss as an extraordinary item to the extent that a portion of the previously recorded claim receivable was not needed to cover the actual costs of restoring the building.

The City used the insurance proceeds to restore and replace the assets lost in the fire. These acquisitions were capitalized consistent with the City's established policies, as they were made.

## **Required Supplemental Information**

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# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 3,244,724	\$ 3,424,789	\$ 3,654,688	\$ 229,899
Property taxes	19,699,333	19,699,333	19,528,806	(170,527)
Gain on insurance recovery	-	-	432,675	432,675
Other	<u>4,744,598</u>	<u>4,791,598</u>	<u>5,581,775</u>	<u>790,177</u>
Total revenues	27,688,655	27,915,720	29,197,944	1,282,224
<b>Expenditures</b>				
General government	8,139,163	8,230,416	8,572,030	341,614
Public safety	13,221,542	13,488,730	13,368,256	(120,474)
Community development and services	4,210,704	4,206,359	3,875,460	(330,899)
Culture and recreation	<u>2,164,481</u>	<u>2,194,562</u>	<u>2,140,810</u>	<u>(53,752)</u>
Total expenditures	<u>27,735,890</u>	<u>28,120,067</u>	<u>27,956,556</u>	<u>(163,511)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	(47,235)	(204,347)	1,241,388	1,445,735
<b>Fund Balance - July 1, 2004</b>	<u>4,450,773</u>	<u>4,450,773</u>	<u>4,450,773</u>	-
<b>Fund Balance - June 30, 2005</b>	<u><b>\$ 4,403,538</b></u>	<u><b>\$ 4,246,426</b></u>	<u><b>\$ 5,692,161</b></u>	<u><b>\$ 1,445,735</b></u>

# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 1,492,992	\$ 1,752,992	\$ 1,378,200	\$ (374,792)
Transfers in	10,000	10,000	10,000	-
Other	10,000	10,000	75,409	65,409
Total revenues	1,512,992	1,772,992	1,463,609	(309,383)
<b>Expenditures</b>				
Community development and improvement	724,955	724,955	619,182	(105,773)
Capital outlay	315,000	342,613	115,782	(226,831)
Transfers out	350,000	350,000	350,000	-
Total expenditures	1,389,955	1,417,568	1,084,964	(332,604)
<b>Excess of Revenues Over Expenditures</b>	123,037	355,424	378,645	23,221
<b>Fund Balance - July 1, 2004</b>	1,730,180	1,730,180	1,730,180	-
<b>Fund Balance - June 30, 2005</b>	<u><u>\$ 1,853,217</u></u>	<u><u>\$ 2,085,604</u></u>	<u><u>\$ 2,108,825</u></u>	<u><u>\$ 23,221</u></u>

# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 535,215	\$ 535,215	\$ 507,843	\$ (27,372)
Transfers in	3,072,998	3,072,998	3,086,598	13,600
Other	<u>20,000</u>	<u>20,000</u>	<u>63,851</u>	<u>43,851</u>
Total revenues	3,628,213	3,628,213	3,658,292	30,079
<b>Expenditures</b>				
Community development and improvement	637,681	637,681	618,716	(18,965)
Capital outlay	<u>4,077,000</u>	<u>3,880,082</u>	<u>2,178,031</u>	<u>(1,702,051)</u>
Total expenditures	<u>4,714,681</u>	<u>4,517,763</u>	<u>2,796,747</u>	<u>(1,721,016)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	(1,086,468)	(889,550)	861,545	1,751,095
<b>Fund Balance - July 1, 2004</b>	<u>4,812,890</u>	<u>4,812,890</u>	<u>4,812,890</u>	-
<b>Fund Balance - June 30, 2005</b>	<u><b>\$ 3,726,422</b></u>	<u><b>\$ 3,923,340</b></u>	<u><b>\$ 5,674,435</b></u>	<u><b>\$ 1,751,095</b></u>



# City of Madison Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Revolving Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues - Other</b>	\$ 455,196	\$ 455,196	\$ 572,435	\$ 117,239
<b>Expenditures</b>				
Community development and improvement	-	-	25,370	25,370
Capital outlay	4,000	4,000	5,836	1,836
Transfer out	563,000	563,000	563,000	-
Total expenditures	567,000	567,000	594,206	27,206
<b>Excess of Expenditures Over Revenues</b>	(111,804)	(111,804)	(21,771)	90,033
<b>Fund Balance - July 1, 2004</b>	803,614	803,614	803,614	-
<b>Fund Balance - June 30, 2005</b>	<u>\$ 691,810</u>	<u>\$ 691,810</u>	<u>\$ 781,843</u>	<u>\$ 90,033</u>

# City of Madison Heights, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows (in millions):

### Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
6/30/99	\$ 45.29	\$ 44.42	\$ (0.87)	\$ 5.80	-	102.0
6/30/00	47.69	46.24	(1.45)	5.59	-	103.1
6/30/01	49.00	48.14	(0.86)	5.80	-	101.8
6/30/02	49.20	50.63	1.43	6.44	22.2	97.2
6/30/03	48.92	51.67	2.75	6.31	43.5	94.7
6/30/04	48.98	56.13	7.15	6.99	102.3	87.3

# City of Madison Heights, Michigan

## Required Supplemental Information Schedule of Employer's Contributions June 30, 2005

The schedule of employer contributions is as follows:

### Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
06/30/00	06/30/99	\$ 909,016	100.0
06/30/01	06/30/00	850,458	100.0
06/30/02	06/30/01	845,881	100.0
06/30/03	06/30/02	951,923	100.0
06/30/04	06/30/03	1,221,459	100.0
06/30/05	06/30/04	1,513,226	100.0

\* Excludes contributions made for retiree health care and other expenses

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, is as follows:

### Police and Fire Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	12 years closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7%
Projected salary increases**	5.5%-8.5%
**Includes inflation at cost of living adjustments	5.5%
Postretirement benefit increases	None

# City of Madison Heights, Michigan

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## Note to Required Supplemental Information June 30, 2005

### **Note - Stewardship, Compliance, and Accountability**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund and in the other supplemental information budgetary comparison schedules for the nonmajor governmental funds is on this budget basis. The level of detail presented in the required supplemental information for the major governmental funds is in greater detail than the adopted budgets. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

# City of Madison Heights, Michigan

## Note to Required Supplemental Information June 30, 2005

### Note - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2005 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America with the exception that the extraordinary item (net insurance proceeds), and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "extraordinary item" and "other financing sources (uses)."

During the current year, the City incurred general government expenditures within the major funds that were in excess of the amounts budgeted as follows:

	<u>Final Budget</u>	<u>Actual</u>
<b>General Fund</b> - General government	\$ 8,230,416	\$ 8,572,030

The variance in the General Fund - general government budget was due to an unbudgeted contribution of funds to the City's new MERS Health Care Savings Plan Trust. This overage was offset by additional unanticipated revenues related to a legal settlement.

All other budget comparison schedules are contained in the other supplemental information section.

## **Other Supplemental Information**

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# City of Madison Heights, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Nonmajor Special Revenue Funds			Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	
	Curtail Auto Theft	Community Improvement	Forfeiture	Fire Station	Fire Station	Total Nonmajor Governmental Funds
<b>Assets</b>						
Cash and investments	\$ -	\$ -	\$ 127,546	\$ -	\$ 206,471	\$ 334,017
Due from other governmental units	-	38,301	-	-	-	38,301
Restricted assets	-	-	-	180,538	-	180,538
Total assets	<u>\$ -</u>	<u>\$ 38,301</u>	<u>\$ 127,546</u>	<u>\$ 180,538</u>	<u>\$ 206,471</u>	<u>\$ 552,856</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 32,700	\$ -	\$ -	\$ -	\$ 32,700
Accrued and other liabilities	-	5,601	-	-	-	5,601
Total liabilities	-	38,301	-	-	-	38,301
<b>Fund Balances</b>						
Reserved	-	-	-	180,538	206,471	387,009
Unreserved - Undesignated	-	-	127,546	-	-	127,546
Total fund balances	-	-	127,546	180,538	206,471	514,555
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 38,301</u>	<u>\$ 127,546</u>	<u>\$ 180,538</u>	<u>\$ 206,471</u>	<u>\$ 552,856</u>

# City of Madison Heights, Michigan

## Other Supplemental Information Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2005

	Nonmajor Special Revenue Funds			Capital Projects Fund	Nonmajor Debt Service Fund	
	Curtail Auto Theft	Community Improvement	Forfeiture	Fire Station	Fire Station	Total Nonmajor Governmental Funds
<b>Revenues</b>						
Intergovernmental	\$ 32,817	\$ -	\$ -	\$ -	\$ -	\$ 32,817
Federal sources	-	192,832	-	-	-	192,832
Other	-	21	68,691	6,050	405	75,167
Total revenues	32,817	192,853	68,691	6,050	405	300,816
<b>Expenditures</b>						
Current:						
Public safety	48,525	-	-	-	-	48,525
Community development and improvement	-	144,470	-	-	-	144,470
Capital outlay	-	-	2,994	683,646	-	686,640
Debt administration	-	-	-	-	358,585	358,585
Total expenditures	48,525	144,470	2,994	683,646	358,585	1,238,220
<b>Excess of Revenues Over (Under) Expenditures</b>	(15,708)	48,383	65,697	(677,596)	(358,180)	(937,404)
<b>Other Financing Sources (Uses)</b>						
Operating transfers in	15,708	-	-	-	449,755	465,463
Operating transfers out	-	(48,383)	-	-	-	(48,383)
Total other financing sources (uses)	15,708	(48,383)	-	-	449,755	417,080
<b>Net Change in Fund Balances</b>	-	-	65,697	(677,596)	91,575	(520,324)
<b>Fund Balances - July 1, 2004</b>	-	-	61,849	858,134	114,896	1,034,879
<b>Fund Balances - June 30, 2005</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,546</u>	<u>\$ 180,538</u>	<u>\$ 206,471</u>	<u>\$ 514,555</u>



# City of Madison Heights, Michigan

## Other Supplemental Information Combining Balance Sheet Agency Funds June 30, 2005

	Tax Collection		
	Fund	Escrow Fund	Total
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 122,274</u></b>	<b><u>\$ 539,978</u></b>	<b><u>\$ 662,252</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 40,372	\$ 47,417	\$ 87,789
Prepaid taxes	81,902	-	81,902
Cash bonds and deposits	<u>-</u>	<u>492,561</u>	<u>492,561</u>
Total liabilities	<b><u>\$ 122,274</u></b>	<b><u>\$ 539,978</u></b>	<b><u>\$ 662,252</u></b>

# City of Madison Heights, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2005

### Special Revenue - Curtail Auto Theft

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenues - Intergovernmental</b>	\$ 34,142	\$ 32,817	\$ (1,325)
<b>Expenditures</b>	<u>44,506</u>	<u>48,525</u>	<u>4,019</u>
<b>Excess of Expenditures Over Revenues</b>	(10,364)	(15,708)	(5,344)
<b>Other Financing Sources - Operating transfers in</b>	10,364	15,708	5,344
<b>Fund Balance - July 1, 2004</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - June 30, 2005</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

### Special Revenue - Community Improvement

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>	\$ 165,989	\$ 192,853	\$ 26,864
<b>Expenditures</b>	<u>146,989</u>	<u>144,470</u>	<u>(2,519)</u>
<b>Excess of Revenues Over Expenditures</b>	19,000	48,383	29,383
<b>Other Financing Uses - Operating transfers out</b>	(19,000)	(48,383)	(29,383)
<b>Fund Balance - July 1, 2004</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - June 30, 2005</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

# City of Madison Heights, Michigan

## **Other Supplemental Information** **Budgetary Comparison Schedule - Nonmajor Special Revenue Funds** **(Continued)** **Year Ended June 30, 2005**

### **Special Revenue - Forfeiture**

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ 49,000	\$ 68,691	\$ 19,691
Expenditures	23,000	2,994	(20,006)
Excess of Revenues Over Expenditures	26,000	65,697	39,697
Fund Balance - July 1, 2004	61,849	61,849	-
Fund Balance - June 30, 2005	<u>\$ 87,849</u>	<u>\$ 127,546</u>	<u>\$ 39,697</u>

# City of Madison Heights, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Capital Projects - Fire Station Fund Year Ended June 30, 2005

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenues - Other</b>	\$ -	\$ 6,050	\$ 6,050
<b>Expenditures</b>	<u>682,975</u>	<u>683,646</u>	<u>671</u>
<b>Excess of Expenditures Over Revenues</b>	(682,975)	(677,596)	5,379
<b>Fund Balance - July 1, 2004</b>	<u>858,134</u>	<u>858,134</u>	<u>-</u>
<b>Fund Balance - June 30, 2005</b>	<u><u>\$ 175,159</u></u>	<u><u>\$ 180,538</u></u>	<u><u>\$ 5,379</u></u>

# City of Madison Heights, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Debt Service - Fire Station Fund Year Ended June 30, 2005

	Original/Final Budget	Actual	Variance with Final Budget
<b>Revenues - Other</b>	\$ -	\$ 405	\$ 405
<b>Expenditures</b>	<u>439,076</u>	<u>358,585</u>	<u>(80,491)</u>
<b>Excess of Expenditures Over Revenues</b>	(439,076)	(358,180)	80,896
<b>Other Financing Sources - Operating transfers in</b>	452,354	449,755	(2,599)
<b>Fund Balance - July 1, 2004</b>	<u>114,896</u>	<u>114,896</u>	<u>-</u>
<b>Fund Balance - June 30, 2005</b>	<u><b>\$ 128,174</b></u>	<u><b>\$ 206,471</b></u>	<u><b>\$ 78,297</b></u>

# City of Madison Heights, Michigan

## Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2005

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ -	\$ 1,531,893	\$ -
Appreciation of investment value	-	1,247,382	-
Less: Trustee fees and other investment-related expenses	-	(202,447)	-
Net investment income	-	2,576,828	-
Employee contributions	492,040	-	-
City contributions:			
Pension benefits	-	1,513,226	-
Postretirement benefits	-	933,831	-
Investment and administrative expenses	-	430,724	-
Total contributions	492,040	2,877,781	-
Total additions	492,040	5,454,609	-
<b>Deductions</b>			
Pension payments	-	-	(2,872,504)
Postretirement benefits	-	(933,831)	-
General administrative expenses	-	(228,277)	-
Total deductions	-	(1,162,108)	(2,872,504)
<b>Transfers</b> - Investment income allocation	287,131	(2,088,659)	1,801,528
<b>Net Increase (Decrease)</b>	779,171	2,203,842	(1,070,976)
<b>Net Assets Held in Trust for Pension Benefits</b>			
July 1, 2004	5,493,555	10,590,243	31,162,829
June 30, 2005	<u>\$ 6,272,726</u>	<u>\$ 12,794,085</u>	<u>\$ 30,091,853</u>

## **Statistical Section**

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# City of Madison Heights, Michigan

## General Government Expenditure History (1)

### Last Ten Fiscal Years

(Unaudited)

(amounts expressed in thousands)

Fiscal Year	Community and							Total
Ended	General		Economic	Recreation	Capital	Debt		
June 30	Government	Public Safety	Development	and Culture	Outlay	Administration	Expenditures	
1996	\$ 3,690	\$ 9,330	\$ 4,362	\$ 1,322	\$ 2,432	\$ 834	\$ 21,970	
1997	3,592	9,590	4,767	1,458	2,168	831	22,406	
1998	4,060	9,582	4,557	1,532	4,568	865	25,164	
1999	4,382	10,231	4,851	1,589	3,112	724	24,889	
2000	5,378	11,195	4,437	2,478	3,629	747	27,864	
2001	5,493	11,237	5,343	2,516	3,220	210	28,019	
2002	5,608	12,110	5,912	2,656	2,393	46	28,725	
2003	5,416	12,520	5,254	2,314	3,533	11	29,048	
2004	5,512	13,422	7,227	2,427	6,616	325	35,529	
2005	5,971	13,417	5,283	2,141	2,986	359	30,157	

(1) Includes all governmental fund types under modified accrual accounting

Source: City's annual financial statements



# City of Madison Heights, Michigan

## General Government Revenues History (1) Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	General Property Taxes	Licenses and Permits	Inter- governmental Revenue	Charges for Services	Court Fines and Fees	Interest and Miscellaneous Revenues	Total Revenues
1996	\$ 12,203	\$ 521	\$ 6,101	\$ 706	\$ 1,190	\$ 1,802	\$ 22,523
1997	12,658	661	6,514	814	1,159	2,082	23,888
1998	14,740	707	6,257	940	1,010	1,765	25,419
1999	15,457	732	6,395	899	1,173	2,253	26,909
2000	15,943	730	6,601	1,192	1,509	2,727	28,702
2001	16,239	515	6,351	1,152	1,473	3,301	29,031
2002	16,755	899	6,266	1,319	1,443	2,556	29,238
2003	17,291	693	5,766	1,415	1,282	2,132	28,579
2004	18,636	711	5,688	959	1,444	2,582	30,020
2005	19,529	1,204	5,767	839	1,595	2,730	31,664

(1) Includes all governmental fund types

Source: City's annual financial statements

# City of Madison Heights, Michigan

## General Government Selected Intergovernmental Revenues by Source (1) Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Grants	Income Tax	Sales Tax	Single Business Tax (SBT)	SBT Inventory Property Tax Replacement	Gas and Weight Tax	Total
1996	\$ 224	\$ 640	\$ 1,745	\$ 564	\$ 595	\$ 1,324	\$ 5,092
1997(2)	120	50	3,044	-	614	1,308	5,136
1998	108	-	3,234	-	614	1,631	5,587
1999	164	-	3,444	-	614	1,661	5,883
2000	178	-	4,046	-	-	1,744	5,968
2001	293	-	4,173	-	-	1,735	6,201
2002	356	-	4,042	-	-	1,714	6,112
2003	308	-	3,551	-	-	1,872	5,731
2004	131	-	3,281	-	-	1,803	5,215
2005	207	-	3,205	-	-	1,740	5,152

- (1) Includes revenues from certain State sources that were recorded in the City's various governmental fund-type funds
- (2) During fiscal year 1997, the State changed its method of allocation revenue-sharing distributions.

Source: The City's finance department records

# City of Madison Heights, Michigan

## Tax Levy History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	City (1)	School	County	Total
1996	\$ 11,714	\$ 17,428	\$ 6,994	\$ 36,136
1997	12,113	18,585	7,154	37,852
1998	14,585	19,543	7,344	41,472
1999	14,674	21,419	7,439	43,532
2000	16,984	22,793	8,110	47,887
2001	17,237	23,455	8,056	48,748
2002 (2)	17,016	25,147	10,026	52,189
2003	17,480	26,354	10,772	54,606
2004	18,636	25,878	10,857	55,371
2005	19,529	27,717	11,333	58,579

(1) In addition to the tax levy, the City includes in property tax revenue the captured TIFA and DDA taxes as well as collection fees, penalties, and related items.

(2) TIFA capture was discontinued.

Source: City's finance department records

# City of Madison Heights, Michigan

## Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Levy	Current Collections in Fiscal Year	Percent Collected in Fiscal Year	Delinquent Collections in Fiscal Year	Total Current and Delinquent Collections to June 30, 2004	Percent Collected to June 30, 2004	Delinquent Taxes Receivable at Fiscal Year End (1)
1996	\$ 11,714	\$ 11,664	99.57	\$ 61	\$ 11,725	100.09	\$ 170
1997	12,113	11,991	98.99	58	12,049	99.47	153
1998	14,178	13,973	98.55	60	14,033	98.98	144
1999	16,405	16,284	99.26	95	16,379	99.84	155
2000	16,984	16,921	99.63	63	16,984	100.00	176
2001	17,237	16,972	98.46	102	17,074	99.05	295
2002	17,016	16,671	97.97	119	16,790	98.67	455
2003	17,480	17,167	98.21	195	17,362	99.32	249
2004	18,837	18,560	98.52	199	18,759	99.59	277
2005	19,851	19,533	98.40	129	19,662	99.05	277

(1) On the governmental funds balance sheet, the City reserved the entire balance of delinquent taxes receivable outstanding at year end.

Source: City's finance department records

# City of Madison Heights, Michigan

## Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years (Unaudited)

Fiscal Year Ended June 30	City	Schools (1)		County	Total	
		Homestead	Nonhomestead		Homestead	Nonhomestead
1996	\$ 15.17	\$ 10.25	\$ 20.15	\$ 9.06	\$ 34.48	\$ 44.38
1997	15.17	11.13	21.82	8.97	35.27	45.96
1998	17.14	10.48	21.41	8.60	36.22	47.15
1999	17.04	16.67	27.77	8.53	42.24	53.34
2000	16.79	17.38	28.51	8.92	43.09	54.22
2001	16.63	17.20	28.87	8.66	42.49	54.16
2002	16.22	17.21	28.58	10.01	43.44	54.81
2003	15.89	16.98	28.50	10.28	43.15	54.67
2004	16.71	15.80	27.44	10.24	42.75	54.39
2005	17.00	16.60	28.33	10.21	43.81	55.54

Note - All rates are expressed in dollars per \$1,000 of taxable value.

(1) Amounts represent a simple average of the three school districts within the City: Lamphere, Madison, and Royal Oak.

Source: City's finance department's records

# City of Madison Heights, Michigan

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## General Tax Information (Unaudited)

Date billed	7/1	12/1
Payment period	City 7/1 to 6/30 Schools 7/1 to 6/30 County 10/1 to 9/30 - (one-third)	County 10/1 to 9/30 - (two-thirds)

### All Taxes - City, County, and School

Delinquent real property taxes are returned to the City Treasurer for collection on March 1. Tax sales are conducted by the County after taxes are delinquent for three years. Property is deeded to the State after two years' delinquency. Land sale by State after two years.

# City of Madison Heights, Michigan

## **Taxable Valuation History Last Ten Fiscal Years (Unaudited)** (amounts expressed in thousands)

<u>Fiscal Year Ended June 30</u>	<u>Real Property Taxable Valuation</u>	<u>Personal Property Taxable Valuation</u>	<u>Total Taxable Valuation</u>
1996	\$ 622,185	\$ 149,971	\$ 772,156
1997	636,133	162,344	798,477
1998	668,505	169,324	837,829
1999	686,323	184,253	870,576
2000	721,018	188,567	909,585
2001	773,733	175,823	949,556
2002	820,884	182,498	1,003,382
2003	869,225	180,758	1,049,983
2004	908,666	169,544	1,078,210
2005	948,267	165,523	1,113,790

Note The schedule represents final assessed taxable value after Board of Review and Michigan Tax Tribunal adjustments. Amounts exclude captured TIFA and DDA valuation increments, where applicable.

Source: City Assessor's department records

# City of Madison Heights, Michigan

## Principal Taxpayers

June 30, 2005

(Unaudited)

(amounts expressed in thousands)

	Real Property Taxable Valuation	Personal Property Taxable Valuation	Total Taxable Valuation	Percentage of Current City Total Taxable Valuation
Gordon Begin Co. (GOBE)	\$ 18,646	\$ -	\$ 18,646	1.73
Liberty Property Trust	17,633	8	17,641	1.64
S & M Heights/Madison Place	14,334	-	14,334	1.33
Detroit Edison Co.	-	12,729	12,729	1.18
Madison Place, LLC	12,020	-	12,020	1.11
Meijer, Inc.	7,584	2,519	10,103	0.94
BT-OH, LLC (UPS)	8,913	-	8,913	0.83
12-75 LTD Partnership/Saturn	4,678	3,400	8,078	0.75
First Industrial LP	8,054	-	8,054	0.75
Sam's Real Estate	7,385	604	7,989	0.74
Madison Heights/New Horizon Co-op Apartments	7,841	-	7,841	0.73
Great Lakes Property Group Trust	7,725	38	7,763	0.72
Ramco-Gershenson/Kmart	6,511	1,012	7,523	0.70
Target Corporation/Mervyn's	6,116	1,054	7,170	0.66
Ogura	2,248	4,200	6,448	0.60
Commercial Steel Treating	2,033	4,245	6,278	0.58
Costco	4,905	911	5,816	0.54
Kemp & Sherman	5,755	-	5,755	0.53
Home Depot	4,384	757	5,141	0.48
Howard Plating	2,467	2,193	4,660	0.43
<b>Total</b>	<b>\$ 149,232</b>	<b>\$ 33,670</b>	<b>\$ 182,902</b>	<b>16.97</b>

Note - The schedule represents the final assessed taxable values after Board of Review and Michigan Tax Tribunal adjustments (valuations as of December 31, 2003).

Source: City Assessor's department records



# City of Madison Heights, Michigan

## Special Assessment Billings and Collections Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

<u>Fiscal Year Ended June 30</u>	<u>Current Special Assessment Installment Due</u>	<u>Current Special Assessment Collection (1)</u>	<u>Ratio of Collections to Amount Due</u>	<u>Total Outstanding Special Assessments</u>
1996	\$ 249	\$ 249	100	\$ 618
1997	204	204	100	682
1998	342	342	100	727
1999	395	395	100	622
2000	366	366	100	916
2001	305	305	100	948
2002	271	271	100	789
2003	299	299	100	649
2004	440	440	100	1,628
2005	331	331	100	2,157

(1) Current special assessment collections represent collections of installments currently due without regard to early payoffs.

Source: City's finance department records

# City of Madison Heights, Michigan

## Net Bonded Debt History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Federal Census Population	Taxable Valuation (2)	General Obligation Bonds Outstanding (1)	Percent of Debt to Taxable Valuation	Debt per Capita (3)
1996	32	\$ 772,156	\$ 2,040	.26	\$ 63.75
1997	32	798,477	1,620	.20	50.63
1998	32	837,829	1,150	.14	35.94
1999	32	870,576	675	.08	21.09
2000	32	909,585	150	.02	4.68
2001	31	949,556	-	-	-
2002	31	1,003,382	-	-	-
2003	31	1,049,983	5,925	.56	191.13
2004	31	1,078,210	5,770	.54	186.13
2005	31	1,113,790	5,605	.50	180.81

(1) Amount does not include Revenue Bonds, contractual drain obligations, or water and sewer general obligations.

(2) From taxable valuation history schedule

(3) Amounts expressed in dollars

# City of Madison Heights, Michigan

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## Computation of Legal Debt Margin June 30, 2005 (Unaudited) (amounts expressed in thousands)

2005 total taxable value	<u>\$ 1,113,790</u> (1)
Legal debt limit (2) (10 percent of total assessed valuation) (3)	\$ 111,379
Amount of bonded debt applicable to debt limit	<u>5,605</u> (4)
Legal debt margin	<u>\$ 105,774</u>

(1) Amount excludes captured DDA valuation increments.

(2) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(3) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

(4) Amount does not include water and sewer general obligations.

# City of Madison Heights, Michigan

## Computation of Direct and Overlapping Debt June 30, 2005 (Unaudited)

(amounts expressed in thousands)

Jurisdiction	Net General Obligation Debt Outstanding	Percent Applicable to City	City Share of Net Debt
<b>Direct Debt - City of Madison Heights</b>	\$ 5,605,000	100.00	\$ 5,605,000 (1)
<b>Overlapping Debt</b>			
Madison School District	16,860,000	100.00	16,860,000
Lamphere School District	25,805,000	86.94	22,434,867
Royal Oak School District	30,404,000	0.46	139,858
Oakland Community College	11,175,000	2.00	223,500
Oakland County at large	97,029,063	1.99	1,930,878
Oakland Intermediate School District	10,220,000	2.00	204,400
Total overlapping debt			<u>41,793,503</u>
Total direct and overlapping debt			<u><b>\$ 47,398,503</b></u>

(1) Amount does not include water and sewer general obligations.

Source: Various taxing authorities

# City of Madison Heights, Michigan

## Ratio of Annual Debt Service Expenditures for General Bonded Debt (1) to Total General Government Expenditures (2) Ten-year Summary (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30					Debt Service as a Percentage of	
	Principal	Interest	Total Debt Service	Total General Government Expenditures	General Government Expenditures	
1996	\$ 392	\$ 128	\$ 520	\$ 21,970		2.4
1997	420	104	524	22,406		2.3
1998	470	79	549	25,164		2.2
1999	475	53	528	24,889		2.1
2000	525	27	552	27,864		2.0
2001	150	9	159	28,019		0.6
2002	-	-	-	28,725		-
2003	-	-	-	29,048		-
2004	155	170	325	35,529		0.9
2005	165	193	358	30,157		1.2

(1) Includes general obligation bonds (exclusive of water and sewer general obligations), municipal building authority bonds, and motor vehicle highway bonds

(2) Includes all governmental fund types

Source: City's annual financial statements

# City of Madison Heights, Michigan

## Demographic Statistics Ten-year Summary (Unaudited)

Fiscal Year Ended June 30	Federal Census Population	Per Capita Income (1)	Median Age (1)	Education Level in		Unemployment Rate (Percent) (3)
				Years of Formal Schooling (1)	School Enrollment (2)	
1996	32,196	\$ 14,192	32.6	12.0	2,283	3.9
1997	32,196	14,192	32.6	12.0	2,250	3.5
1998	32,196	14,192	33.0	12.0	2,250	3.5
1999	32,196	14,192	33.0	12.0	2,250	2.7
2000	32,196	14,192	33.0	12.0	5,382	2.9
2001	31,101	21,429	36.1	12.0	5,354	4.5
2002	31,101	21,429	36.1	12.0	5,117	6.0
2003	31,101	21,429	36.1	12.0	5,106	6.5
2004	31,101	21,429	36.1	12.0	5,045	6.5
2005	31,101	21,429	36.1	12.0	4,318	6.4

Sources:

(1) Federal register

(2) Through 1999 includes only Madison School District - "Fourth Friday Count" (does not include Adult Education Enrollment). Years 2002-2004 include Madison and Lamphere School Districts as well as Bishop Foley and St. Vincent Schools. Years subsequent to 2004 include public schools only - Madison and Lamphere School Districts.

(3) Michigan Employment Security Commission

## City of Madison Heights, Michigan

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Fiscal Year Ended June 30	Construction Value (1)	Number of Permits		Bank Deposits (2)
		New Construction (1)	Demolition (1)	
1996	\$ 13,047,273	1,278	6	\$ 48,911,000
1997	21,265,191	1,477	8	50,000,000
1998	23,049,836	1,204	19	49,500,000
1999	35,000,000	1,050	21	50,000,000
2000	27,529,563	645	12	51,000,000
2001	11,909,199	997	25	52,500,000
2002	31,380,365	993	2	53,000,000
2003	27,761,593	833	15	53,500,000
2004	17,908,035	854	8	54,000,000
2005	21,978,831	843	12	54,000,000

### Sources:

- (1) City Community Development Director. New construction permits for residential, commercial, and apartment projects issued during the fiscal year. Construction value based on these as well as all other permits issued.
- (2) First of America Bank, Madison Heights, Michigan branch
- (3) City Assessor - Amounts represent original assessed taxable value before Board of Review and Michigan Tax Tribunal adjustments.

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**Real Property Value, Construction, and Bank Deposits  
Last Ten Fiscal Years  
(Unaudited)**

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Assessed Real Property Value (3)

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Commercial	Industrial	Residential
\$ 170,909,640	\$ 169,249,300	\$ 341,686,780
175,495,330	171,098,160	366,829,650
201,205,900	190,124,730	410,860,570
218,399,560	224,776,910	451,712,500
230,421,950	241,005,700	493,028,520
246,378,110	254,755,720	534,479,040
274,073,560	263,456,110	573,426,250
286,534,630	269,127,700	611,904,340
287,721,970	274,022,180	641,568,050
294,150,230	270,264,940	671,080,850



# City of Madison Heights, Michigan

## Miscellaneous Statistical Data (Unaudited)

The City of Madison Heights was incorporated January 17, 1955 under Home Rule Act 279 P.A. 1909, as amended, and is administered by a city manager, mayor, and council. It is located in Southeast Oakland County and is approximately seven square miles in area.

The estimated 31,101 residents of the City of Madison Heights are provided various services by City employees serving in the 212 full-time and 241 part-time positions at the City.

Statistical data related to City services at June 30, 2005 is as follows:

### Street service:

Paved streets	106.00 miles
Sidewalks	199.50 miles
Street lighting	1,830 units

### Water and sewer service:

Water mains	131 miles
Consumers:	
Residential	9,619
Commercial	1,315
Sanitary sewers	111 miles
Storm sewers	52 miles

### Protective services - Fire protection:

Stations	2
Positions	39
Hydrants	1,115

### Police protection:

Positions	75
Crossing guards	17
Patrol vehicles	12
Number of traffic violations issued	10,489
Police reserve members	28

### Culture, education, and recreation:

Library	1
Schools by type:	
Elementary	8
Middle	2
Senior	3
Parks	14
Area of parks	131.43 acres

# **City of Madison Heights, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2005**

# City of Madison Heights, Michigan

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## Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-9



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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

We have audited the basic financial statements of the City of Madison Heights, Michigan for the year ended June 30, 2005 and have issued our report thereon dated September 2, 2005. Those basic financial statements are the responsibility of the management of the City of Madison Heights, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Madison Heights, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 2, 2005

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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

We have audited the basic financial statements of the City of Madison Heights, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Madison Heights, Michigan in a separate letter dated September 2, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Madison Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 2, 2005

Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

## Compliance

We have audited the compliance of the City of Madison Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Madison Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Madison Heights, Michigan's management. Our responsibility is to express an opinion on the City of Madison Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madison Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Madison Heights, Michigan's compliance with those requirements.

In our opinion, the City of Madison Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Honorable Mayor and  
Members of the City Council  
City of Madison Heights, Michigan

### **Internal Control Over Compliance**

The management of the City of Madison Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Madison Heights, Michigan in a separate letter dated September 2, 2005.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 2, 2005



# City of Madison Heights, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development: Section 8 Voucher	14.871	N/A	\$ 2,055,728	\$ 1,742,260
Community Development Block Grant - Passed through Oakland County, Michigan:	14.218	Unit 21		
2004			192,883	115,858
2005			150,534	76,733
Total Community Development Block Grant				<u>192,591</u>
Total U.S. Department of Housing and Urban Development				1,934,851
U.S. Department of Justice - Office of Justice Programs - Bureau of Justice Assistance - Local Law Enforcement Block Grants Program - (2003-LB-BX-0928)	16.592	N/A	17,557	13,882
U.S. Department of Homeland Security - Passed through the State of Michigan - State Homeland Security Grant Program	97.004	N/A	24,021	22,494
U.S. Department of Agriculture - Passed through the Michigan Department of Natural Resources - Emerald Ash Borer Tree Planting Grant	10.664	N/A	3,425	<u>3,425</u>
Total federal awards				<u><b>\$ 1,974,652</b></u>

# City of Madison Heights, Michigan

## Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

### Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Madison Heights, Michigan and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. However, certain revenue-related grant expenditures were not direct federal awards and, as such, were reported as other than federal source revenue in the City's basic financial statements.

A reconciliation of the City's basic financial statements federal source revenue presentation with the schedule of expenditures of federal awards is as follows:

Federal revenue reported in the Housing Commission as operating grants and contributions	\$1,731,012
Federal revenue reported in the Housing Commission as miscellaneous general revenue	11,208
Federal revenue reported in the General Fund as operating grants and contributions	39,801
Federal revenue reported in the Community Improvement Fund as operating grants and contributions	<u>192,832</u>
Revenue from federal sources - As reported on financial statements (includes all funds)	1,974,853
Federal revenue reported in the financial statements, but expended in a prior period	<u>(201)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$1,974,652</u></u>

# City of Madison Heights, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2005

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program(s):

CFDA

Number(s)

Name of Federal Program or Cluster

14.871 Section 8 Voucher

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **City of Madison Heights, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

September 2, 2005

Honorable Mayor and Members  
of the City Council  
City of Madison Heights  
300 West Thirteen Mile Road  
Madison Heights, Michigan 48071

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Madison Heights, Michigan for the year ended June 30, 2005. In addition to the audit report, we offer the following comments and suggestions for your consideration.

#### STATE REVENUE SHARING

The Governor's budget for the State of Michigan's fiscal year 2005-2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004-2005 funding level. In essence, no further reductions to revenue sharing below the current year 2004-2005 funding level were adopted. However, as in past periods this could equate to increases in constitutional receipts and actual decreases in the statutory component. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments and for fiscal years 2004-2005 and 2005-2006. The appropriation in the State's budget for revenue sharing payments is more than \$500 million less annually than amounts provided for in law based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and, as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

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September 2, 2005

State shared revenue accounts for approximately 11.1% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past six years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$2,090,415	\$2,182,477	\$4,272,892	\$ -
2001	2,146,439	2,018,212	4,164,651	108,241
2002	1,810,148	2,038,771	3,848,919	423,973
2003	1,539,613	2,073,287	3,612,900	659,992
2004	1,196,338	2,050,766	3,247,104	1,025,788
2005	1,127,465	2,077,562	3,205,027	1,067,865

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$1,127,000 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the City as developments occur.

## **MANUAL JOURNAL ENTRIES**

Beginning with last year's audit, additional procedures were performed pursuant to the Statement on Auditing Standards entitled *Consideration of Fraud in a Financial Statement* (referred to as SAS 99). SAS 99 focuses additional attention on the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in certain new and additional testing in the conducting of the past two years' audits, including a more detailed analysis of manual journal entries.

We did note a few minor matters related to journal entries which may deserve some additional attention. These matters relate to the potential to increase the segregation of duties, to formalize the review process related to the posting of manual entries, and to maintain additional supporting documentation for manual journal entries. These items have been communicated to the Finance department and we understand that internal procedures have been and are being reviewed in conjunction with the City's change to the new accounting software.

## **WITHDRAWAL SETTLEMENT**

We were very pleased to note that, during the year, the City finalized a settlement with the Southeastern Oakland County Resource Recovery Authority related to the City's withdrawal from this venture. This settlement was the result of significant efforts over many years, and we would like to congratulate the City and its staff, as well as the City's representatives, in the resolution of this issue.

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of the City Council  
City of Madison Heights

September 2, 2005

## **POST-RETIREMENT BENEFIT PROGRAMS**

As we have mentioned in prior correspondence, Governmental Accounting pronouncements will require the City to begin to record its liability for post-retirement benefits, other than pension benefits, in the City's fiscal year ending June 30, 2009. We were very pleased to note the prompt attention given these pronouncements by the City's administration.

During the year, the City established and, equally as important, began funding a retiree healthcare fund pursuant to Public Act 149 of 1999 for its non-police and fire employees. Additionally, we are aware that work to establish a similar fund for police and fire retirees is actively in process. We would like to commend the City on its prompt attention to this issue and its focus on the long-term fiscal health of the community.

## **INTERNAL CONTROL CONSIDERATIONS**

During the audit, we noted the following regarding the internal control structure:

- We noted an instance where the proper authorization was not given on a disbursement request form. We suggest all disbursements be approved by the Treasurer prior to the issuance of checks.
- We noted several instances where required signatures were not included on various employee timesheets. We suggest all timesheets be reviewed by the appropriate individual to ensure all signatures have been obtained.
- We noted during the testing of various areas the ability of management to override system controls, such as writing and posting journal entries, changing bank reconciliations and adding new vendors and staff members. We suggest implementing levels of review that would minimize the ability of management to override the system.
- In discussing the above information, it was noted that most of the above matters took place when the prior accounting package was in use. Again, our understanding is that procedures have been revised upon the implementation of the new accounting software which is expected to strengthen these areas.

## **PERFORMANCE BONDS**

Our review of performance bonds revealed that both the Community Development Department and the Finance Department are tracking the bonds via different systems. Reports generated by each department should be reconciled on a monthly basis to ensure that the outstanding bonds are being properly accounted for.

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of the City Council  
City of Madison Heights

September 2, 2005

## PROPOSED UTILITY APPEAL SETTLEMENT

A tentative agreement has recently been reached with DTE Energy to settle all current and outstanding utility appeals with Detroit Edison Company and the Michigan Consolidated Gas Company (MichCon). We understand that the City assessor, Mr. McLachlan, was significantly involved in the details of the settlement process.

The settlement is structured such that no money, in the form of tax refunds or additional taxes, need be exchanged between the utilities and local governmental units. The agreement has approximately ten stipulations that must be adhered to for it to be finalized. The more significant ones are as follows:

- In the next three years, if a city or township uses any multipliers to value MichCon or Detroit Edison personal property, other than the presently approved STC multipliers, the utility can enforce a judgment from 1997 through 1999, involving refund of taxes with interest.
- Each year that the city or township abides by the agreement a year of the 1997 - 1999 potential refunds is dropped.
- Settlements with Detroit, Dearborn and six other Wayne County communities must be concluded by the beginning of December 2005

We suggest continuing to treat the liability on the City's books consistent with prior periods given that this agreement is contingent on settlements from eight Wayne County communities and these liabilities will not be eliminated immediately, but rather over the next three years.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Mark E. Chmielewski



Blake M. Roe